Massey-Ferguson Limited

Annual Report 1976

The business of Massey-Ferguson

Massey-Ferguson is among the world's largest manufacturers of farm machinery, industrial and construction machinery and diesel engines. About 20 per cent of all agricultural tractors, about 20 per cent of all combine harvesters and about 15 per cent of all multicylinder diesel engines made in the Western World bear the MF or Perkins mark.

These products are made in 90 factories in 30 countries, half of which are developing nations. Of its products, 92 per cent are sold in some 190 countries outside Canada.

Contents

Cover and facing page: Massey-Ferguson introduced in 1976 the most powerful two-wheel-drive tractor in the world.

The MF 2800, rated at 190 PTO horsepower, places the company in a leading position to meet the increasing demand for higher-horsepower and more sophisticated tractors required by changing farming practices.

Le rapport du conseil aux actionnaires en français peut être obtenu sur demande en s'adressant au Secretaire de la compagnie.

Availability of the 10-K report. A copy of the company's 10-K report as filed with the United States Securities and Exchange Commission will be sent to shareholders upon written request to the company Secretary.

The Annual Meeting of Shareholders will be held in the Canadian Room, Royal York Hotel, Toronto, at 12 noon, March 10, 1977.

Financial Highlights

Operating Summary (Millions of U.S. Dollars)	1976	1975*
Net sales	$2,771.7	$2,513.3
Net income	117.9	98.8
Financial Status (Millions of U.S. Dollars)		
Net current assets	$731.8	$625.7
Long-term debt**	529.4	452.3
Capital and retained earnings	803.0	651.8
Per Common Share (U.S. Dollars)		
Income (after preferred share dividends)	$6.04	$5.31
Common dividends paid (Canadian Dollars)	1.00	0.90
Equity	38.51	33.56
Statistical Data		
Number of employees	68,200	64,572
Number of shareholders		
Common	31,039	35,844
Preferred	10,620	5,046
Shares outstanding (thousands)		
Common	18,250	18,250
Preferred		
Series A	1,600	1,600
Series B	2,399	—

*restated

**excludes Finance Companies

Massey-Ferguson Limited

200 University Avenue, Toronto, Canada M5H 3E4

Directors

* Albert A. Thornbrough
President and Chief Executive Officer
The Marquess of Abergavenny
Alex E. Barron
Henry Borden, Q.C.
Charles L. Gundy
Derek C. Hayes
* John A. McDougald
Chairman, Executive Committee
Gilbert W. Humphrey
John D. Leitch
*† A. Bruce Matthews
* Maxwell C. G. Meighen
John E. Mitchell
A. M. Runciman
† John G. Staiger
J. Page R. Wadsworth
† Trumbull Warren
* Colin W. Webster
The Duke of Wellington

**Member Executive Committee*
† Member Audit Committee

Honorary Directors: H. J. Carmichael, Lord Crathorne and E. P. Taylor

Corporate Management

A. A. Thornbrough
President and Chief Executive Officer

J.G. Staiger
Senior Vice President and Vice President Corporate Operations

P. N. Breyfogle
Executive Vice President Europe

J. E. Mitchell
Executive Vice President Americas

Hugo Vajk
Executive Vice President Asia/Africa/Australasia

P. J. Wright
Executive Vice President Engines

J. A. Belford
Vice President Personnel & Industrial Relations

J. D. Goodson
Vice President Industrial & Construction Machinery

D. G. Kettering
Vice President Farm Machinery

R. W. Main
Vice President Administration, Secretary and Director Legal Services

H. A. R. Powell
Assistant to the President

Douglas Barker
Treasurer

P. J. Dixon
Director Management Systems

W. A. Murray
Director Logistics

V. A. Rice
Comptroller

E. H. Weichel
Director Public Affairs

Other Officers of the company:
Victor Koury, W. H. Mason, Vivian de Mesquita *and* G. F. Ryan, *Assistant Treasurers*
R. D. Garland *and* D. C. Hayes, *Assistant Secretaries*

Operations Management

Americas – J. E. Mitchell, *Executive Vice President*
Director Business Development, D. L. Douglass
Director Export Operations, R. T. Doutre
Director Finance, W. A. Fredericks
Inventory Planning Director, E. J. Whelan
Director Special Operations, J. A. Engelbrecht

Argentina – G. M. Yeatts, *General Manager*
Brazil – J. A. Engelbrecht, *General Manager*
Mexico – Abel Baca, *General Manager*
North America – J. E. Mitchell, *General Manager*
Senior Director Operations, B. M. Brown
Senior Director Finance, W. A. Fredericks
Canada – Massey-Ferguson Industries Limited
W. K. Mounfield, President

Asia/Africa/Australasia – Hugo Vajk, *Executive Vice President*
Director Special Operations, F. N. Wilkinson
Director Technical Services, K. J. M. Godlewski
Director Regional Operations, Ralph Ramsay
Special Assistant to Executive Vice President, G. R. Johnson

Polish Projects – Ralph Ramsay, *Director*
Africa and Eastern Area Operations – A. B. Behr, *Director*
Western Asia Operations – P. H. Brealey, *Director*

Australia – M. E. Davis, *General Manager*
South Africa – Dr. L. B. Knoll, *General Manager*

Europe – P. N. Breyfogle, *Executive Vice President*
Assistant to the Executive Vice President, S. V. Bishop
Director Finance, J. A. O'Reilly
Director Farm Machinery Marketing Staff, P. G. Barger
Director ICM Marketing Staff, J. L. Egan
Director Parts Staff, Albert Jebson
Director Product Staff, Pierre Tiberghien
Director Technical Staff, G. E. Smith

Export Europe – J. D. Parsons, *General Manager*
France – P. E. Poniatowski, *General Manager*
Italy – J. J. Campbell, *General Manager*
United Kingdom – R. M. Jennings, *General Manager*
West Germany – Dr. Ursula Brinkmann, *General Manager*

Engines Group – P. J. Wright, *Executive Vice President*
Assistant to Executive Vice President, C. J. Hind
Group Director Finance & Administrative Staff, A. J. Parsons
Group Director Product Staff, Rolando Bertodo

Eastern Hemisphere Area – R. C. Clarke, *Executive Director*
Latin America & Caribbean Area – J.M. Felker, *Executive Director*
Brazil – Jorge Silveira, *General Manager*
North America Area – K. E. Glass, *Executive Director*
United Kingdom Area – M. R. Hoffman, *Executive Director*

Report of the Directors to the Shareholders

For the year ended October 31, 1976.

For the sixth successive year we are able to report record levels of production, sales and net income. Sales and income gains were achieved in spite of the deterioration of most currencies relative to the U.S. dollar. Currency deteriorations, particularly in U.K. sterling and Italian lira, had the effect of reducing our world-wide sales by approximately 10 per cent when translated into U.S. dollars.

With the approval of our auditors, the Directors decided to change the accounting for the translation of foreign currencies to bring our practices into conformity with Statement No. 8 of the U.S. Financial Accounting Standards Board. This change did not have a material effect on our 1976 accounts nor on those of 1975 which are restated to provide appropriate comparison with 1976. The effect of Statement No. 8 on our accounts is discussed on page 19 of this Report.

Production in 1976 was at record levels for most products with gains of 11 per cent for tractors, seven per cent for diesel engines and six per cent for industrial and construction machinery, which includes a gain of 22 per cent for large construction machines made at Hanover. Production of combines was down seven per cent, primarily in Europe where demand has been soft since 1973.

Improvements in sales and income were achieved in each quarter over the comparable periods of 1975. Consolidated sales for 1976 of $2,772 million were up 10 per cent and net income of $118 million was 19 per cent greater than the re-stated income of 1975. Net income per common share was $6.04 compared to $5.31.

Significant sales increases were recorded for all product groups. Farm machinery sales reached $2 billion, an increase of 10 per cent; diesel engines sales increased by 15 per cent to $340 million; and industrial and construction machinery sales of $380 million were up seven per cent in spite of softness in the capital goods sector in North America.

North American sales reached a record $855 million in 1976, an increase of 15 per cent. Sales in the fourth quarter were notably strong, reflecting the increasing capability of our dealers and distributors in that market as well as the return to a more normal pattern of seasonal retail sales.

Although some parts of Europe experienced severe drought, we were able to achieve sales of $890 million, a gain of nine per cent, with particularly good growth in Italy and West Germany.

Asian sales of $206 million were ahead of 1975 by 40 per cent, with major gains in the three important markets of Iran, Pakistan and Turkey.

The relationship of cost of goods sold to sales improved in 1976 although price controls in many countries, including Canada, the U.K., Brazil, France and Australia, did not permit maintenance of normal margins through pricing action. Cost of goods sold at 76.4 per cent was the lowest since 1966. All other expenses were generally unchanged from 1975 in relation to sales.

Net income for the year was 4.3 per cent of sales, a significant improvement over the 3.9 per cent of 1975.

Capital expenditures in 1976 were $175 million and are planned at approximately the same level for 1977. Thus, additions to fixed assets for the three-year period 1975-77 are expected to exceed $500 million. Most of these expenditures are in support of our long-term program to develop new products, including two large tractors of 190 and 160 horsepower which were introduced in 1976, and other products planned for 1977. Our capital expenditure program will also provide greater production capacity; for example, the engine plant in Canton, Ohio; the expansion of the tractor plant in Detroit; and more effective utilization of facilities in Hanover, West Germany.

Financing

An issue of $61 million ($60 million Canadian) of preferred shares was successfully placed in Canada during April, 1976. Long-term debt of $160 million was also raised during the year of which $75 million of debentures was sold in the Eurodollar market on a 15-year basis. These steps, along with continuing management action to control current assets, produced satisfactory improvement in balance sheet ratios.

Associate Companies and Licensees

Sales of our Associate companies, which are not included in Massey-Ferguson's consolidated sales, were $587 million in 1976, an increase of 13 per cent. These results were achieved in spite of the negative effect of currency devaluations in Spain and Mexico.

Sales	1976	1975	% Increase
	(Millions of U.S. Dollars)		
Farm Machinery	$2,001	$1,812	10
Industrial & Construction Machinery	380	355	7
Engines	340	295	15
Other Products	51	51	–
Total	$2,772	$2,513	10

The largest of our Associates, Motor Iberica S.A. of Spain, had sales of $352 million, slightly ahead of 1975. Our Spanish Associate continues to be a supplier to Massey-Ferguson of tractors, and tractor and engine components. Our Mexican Associate's sales of $45 million were down seven per cent from 1975.

Our Associates and licensees continue to grow in production capability and their support of our world-wide operations is appreciated. In many cases their operations have become significant contributors to the economic development of the countries in which they operate.

Industrial Relations

The industrial relations situation was favourable throughout 1976 in spite of economic problems and social unrest in a number of countries. We experienced no serious disruptions of production in 1976 except in France, where approximately three weeks of production was lost at our Marquette plant in the second quarter.

Strikes lasting one or two days, arising out of political or social issues, took place in Canada, France and Australia.

Annual wage and salary negotiations at all plants in the United Kingdom were completed without strike and were within guidelines agreed by the government and the national trade unions. At mid-January, however, assembly workers at the Banner Lane tractor plant were on strike as the result of a dispute over manning standards, resulting in the lay-off of most of the other employees in the plant.

In North America, labour agreements were concluded in the fall of 1976 with major companies in the automotive and agricultural implement industries. The agreements are setting the pattern for other companies in those industries. By mid-January re-negotiation of the three-year master agreement covering our U.S. factories was completed, subject to ratification by union members. Negotiations of local plant agreements were still underway. The present three-year agreement in Canada runs to September, 1977.

Dividends and Shareholdings

Dividends paid on the common shares during the 1976 fiscal year amounted to $1.00 (Canadian funds) a share. An extra dividend of eight cents, the maximum allowable under the

Albert A. Thornbrough, President, attended ceremonies in Brazilia early in 1976 when Massey-Ferguson do Brasil launched its new line of MF 200 series tractors. Brazil is the company's second largest market, accounting for nearly 15 per cent of world-wide sales.

Canadian Anti-Inflation regulations, was declared in November and was paid on December 20.

During 1976, the number of our shareholders declined by almost 5,000 to 31,000 at October 31. This is a reflection of growing interest of institutional investors in our shares.

There was also a major shift of shareholdings during the year between Canada and the United States. The percentage of shares registered in the names of Canadian residents was 65 per cent and in the names of U.S. residents was 33 per cent at year end. The comparable figures at the end of 1975 were 84 per cent and 14 per cent.

Board and Senior Management Changes

At a meeting of the Directors on January 5, 1977, J. Page R. Wadsworth was appointed a Director replacing R. W. Main. Mr. Wadsworth, formerly Chairman and Chief Executive Officer of the Canadian Imperial Bank of Commerce, is a director of a number of companies and has a broad knowledge of Canadian and international finance.

There were no changes in senior management during 1976. Good progress was made in adding strength to our management team by the recruitment of a significant number of executives with high potential.

Outlook for 1977

Expectations for 1977 are for continuing recovery of the world economy and the upward trend that began in 1976 is expected to continue at a satisfactory rate. Consequently, demand for capital goods, including industrial and construction machinery and diesel engines, is expected to improve during 1977.

In the farm sector, record world production of grains was achieved in 1976 with the help of timely but not abundant rainfall in North America and Russia. However, subsoil moisture in these areas, as well as in Australia and Western Europe, is at a low level and above-average rainfall is needed to support the 1977 crop. Thus, prospects for grain production and the level of grain stocks once again are dependent upon favourable weather.

In spite of declines in world grain prices during 1976, farm cash income in North America and Western Europe has remained at a high level and, with recent strengthening of prices, is not expected to decline in 1977. In developing countries with agricultural potential, government policies continue to favour the farm sector. Consequently, world demand for farm machinery may be expected to remain at or near the level of 1976.

For Massey-Ferguson, operations in the first quarter of 1977 will be somewhat constrained by a major production adjustment in Brazil where dealer inventories of tractors increased sharply in the latter part of 1976 due to an inadequate level of farm credit relative to industry tractor production. A further constraint will come from production interruptions at several of our major factories now beginning manufacture of a number of new models of tractors to be introduced in North America and Europe. In addition, there will be a loss of tractor production because of the strike which began on December 20 at the Banner Lane, U.K., plant.

We expect that first quarter sales will be affected also by a return to seasonal buying of farm machinery in North America where retail sales are normally at a low level in the first quarter.

In spite of constraints identified in our first quarter's operations, the outlook for Massey-Ferguson in 1977 is for continuing high levels of production and sales of farm machinery, industrial and construction machinery and diesel engines. With the support of an enlarged and modern product line and a strong distribution organization, we expect to maintain or improve our world-wide market position.

We extend appreciation to our employees, distributors and dealers for their contributions which enabled the company to achieve another record year in 1976.

On behalf of the Board,

Albert A. Thornbrough

Albert A. Thornbrough
President and Chief Executive Officer
Toronto, January 31, 1977

Farm Machinery

Another addition to the growing family of Massey-Ferguson tractors is the Italian-made MF 184-4, designed to provide small-tractor economy combined with the advantages of four-wheel-drive power. This 68-horsepower tractor is proving especially popular in Canada.

The five year period 1971-75 was one of unprecedented growth in the farm machinery industry of the Western World. Massey-Ferguson participated in this growth with marked success. However, like many other manufacturers, we were unable fully to meet market demand for our products, particularly in the years 1973 through 1975, because of limitations of manufacturing capacities.

In 1976, however, under improved supply conditions our sales of farm machinery reached a record level of $2,001 million, 10 per cent ahead of 1975.

World-wide production of Massey-Ferguson tractors was 193,300, an increase of 17,700 units over 1975. We have achieved production increases in each year since 1970 and during that period have added a significant number of models.

The introduction of models during the past two years and an increase in production capacity has enabled us to improve our share of the Western World tractor market. We estimate that our share of this market in 1976 reached 22.5 per cent, a significant improvement over the 20.5 per cent achieved in 1975.

Production at our largest combine facility in Brantford, Canada, was again at capacity in 1976. Production at our European factories was down, however, primarily because the unfavourable weather in most of Europe resulted in a reduced market for combines. Total production in 1976 was down seven per cent from 1975.

A major achievement in the last quarter of 1976 was the introduction to our North American dealers of two tractors of 190 and 160 horsepower that have been under extensive development and test for six years.

Americas

North America

Demand continued in 1976 at high levels in Canada and the United States but a return to a more normal seasonal pattern of retail buying was apparent, causing a shift in demand from the third to the fourth quarter.

Our farm machinery sales increased in 1976 by approximately 12 per cent with a particularly strong gain in the fourth quarter. Sales would have been greater if combine production capacity had been able to satisfy demand. However, manufacturing improvements, including installation of additional machine tools, are increasing production capacity for 1977.

The successful MF 102 sugar cane harvester is the mainstay for Massey-Ferguson's claim to be the largest manufacturer of such machines in the Western World. Made in Australia, the harvesters are meeting mechanization requirements in the U.S. and Latin American markets.

Other improvements in manufacturing capabilities are on schedule in Detroit, Michigan, where a $17.6 million expansion of the tractor plant should be completed by the fall of 1977, and at the Van Born plant in Detroit, where machining of tractor transmissions and axles is being expanded.

The steel processing plant and the implement assembly plant at Brantford, Ontario, were completed in 1976 and are now making major contributions to our manufacturing capability. In Des Moines, Iowa, factory expansion has increased the capacity of the four-wheel-drive tractor and implement production. In anticipation of long-range requirements, improvements are being planned in the master parts warehousing operation at Racine, Wisconsin.

To keep pace with our investment in the expansion of manufacturing capabilities, our North American dealers have made substantial capital investments in new facilities and improvements to existing facilities. In the 1973-76 period, 30 per cent of our dealers built facilities and more than half made major improvements for a total investment of $90 million. This program is continuing in 1977.

The new 190- and 160-horsepower tractors, mentioned earlier, give us an excellent competitive position in an important and growing segment of the large tractor market in North America. These products enable Massey-Ferguson to offer the widest range of horsepower in the two-wheel-drive category of any tractor manufacturer in North America. In this rapidly growing sector of the market – the two-wheel-drive, over-150-horsepower tractor – industry sales have grown from 550 units in 1972 to more than 15,000 units in 1976.

Other machines introduced in North America in 1976 included several models of small-horsepower tractors and additional models of large implements and hay and forage equipment.

Brazil

Tractor production in the early months of 1976 was restricted by problems associated with the introduction of new models and subsequently by a flash flood which halted production for three weeks. In spite of these problems and a slowdown in the market due to uncertainties of farm credit, our Brazilian sales were ahead of 1975 by five per cent.

Products introduced in 1976 included:

- the 200-series agricultural tractors ranging from 34 to 75 horsepower and
- the MF 220 and 330 combines adapted for irrigated rice harvesting.

Massey-Ferguson's share of the combine market has grown to 29 per cent and in the agricultural wheel tractor market we have continued to hold our share at approximately 46 per cent.

Additions of 100,000 square feet to the factories in Canoas, Sao Paulo and Sorocaba brought production facilities of Massey-Ferguson and its Associate companies to 1,245,000 square feet.

As a contribution to the development of Brazilian agriculture, Massey-Ferguson and its dealers are participating in a program with the Brazilian Ministry of Education and Culture which will provide training in tractor operation for 40,000 farm workers during 1977.

Argentina

Sales in Argentina were $70 million and our share of the tractor market was increased to 34 per cent, giving Massey-Ferguson a position of leadership.

During 1976 plant capacity was increased and improvements were achieved in costs and quality control. Production tooling was completed in preparation for the introduction of the 200 series of small-horsepower tractors in November, 1976.

Demand for farm machinery in 1977 is expected to increase in response to an anticipated record wheat harvest and to

The MF 880 moldboard plow is typical of a range of large implements made to match the increasing tractor power demanded in today's big-acreage farming. New, heavy duty implements offered in 1976 included the MF 820 disc harrow and the MF 129 chisel plow.

the government's policy of improving farm income and providing retail credit assistance to farmers.

Mexico

Massey-Ferguson held a leading position in the market but sales were only slightly ahead of 1975 due to poor weather conditions, political uncertainties and the effect of currency devaluations.

Farm machinery prospects for 1977 are difficult to forecast because of uncertainty of farm prices, credit availability and the monetary and inflationary situations. However, the government's policy continues to place high priority on food production.

An agreement in principle was reached in July, 1976 for the sale to the Mexican government of 60 per cent of the company's investment in our Mexican Associate. Devaluation of the peso and economic uncertainties prevented completion of the agreement.

Peru

Our Associate company, Tractores Andinos, began assembly of tractors early in 1976 in a new factory at Trujillo, with an initial capacity of 2,000 units.

Other Latin American Markets

Steps were taken in 1976 to strengthen our distribution by providing Latin American and Caribbean distributors with additional on-site product training as well as management training in service and parts. Due to inventory adjustments by distributors, sales in 1976 declined from 1975 – a year of higher than expected sales attributable to a large order for tractors from Chile. Some recovery, however, is expected in 1977.

Europe

Marked improvements were achieved in the production of tractors in 1976 despite difficulties arising from the introduction of new models which curtailed output in the second half of the year. Production of our European tractor factories reached 142,000 units, of which 85,000 were produced in the United Kingdom.

Although drought conditions in many areas were extreme in 1976, over-all crop production was satisfactory. Heavy autumn rainfall has improved the outlook for 1977 crops.

The launch of new products was a significant event in 1976, although in the case of new models of tractors built in the United Kingdom and France, shipments were delayed by supply problems. Other new products which will be available for sale in 1977 include two models of North American-produced combines and four models of balers.

Investment in European manufacturing capacity during the year reached $20 million each in France and the United Kingdom and $10 million in West Germany.

United Kingdom

As a result of higher prices for farm products, net farm income improved in 1976. The demand for farm machinery, with the exception of combines, was generally strong and industry tractor sales were the highest recorded since 1961.

Although supply remained below demand throughout the year, there was improved availability of tractors. This enabled us to regain our traditional market leadership in 1976 following several years of declining market share due to supply constraints. Massey-Ferguson also was the market leader in combines, despite lower industry sales.

The introduction of a series of tractors with integrated, low-noise-level cabs strengthened our competitive position in the second half of 1976 and should provide further growth in 1977. These tractors were well received by dealers and farmers and demand exceeded our ability to supply. Massey-Ferguson now offers a choice of 11 tractors between 45 and 180 horsepower, including four models added to the range in 1976: the French-produced MF 595 with four-wheel drive and the North American-produced MF 1135, MF 1155 and MF 1505. The range of harvesting machines was extended by the addition of a forage harvester and a large round baler.

France

The government's investment incentive program introduced in 1975 had a favourable effect on industry sales in the first half of 1976. Withdrawal of the program and concern about severe drought conditions caused a sharp drop in farm machinery sales in the second half of the year. However, for the full year industry sales of tractors and combines were ahead by eight per cent and balers were up nearly 25 per cent.

Massey-Ferguson's share of the farm tractor market declined slightly due to supply difficulties. A recovery of market share is expected when production of two new ranges of tractors introduced in the latter half of 1976 reaches planned levels. Our share of the combine market remained close to last year's level and baler market share was improved.

West Germany

During 1976 grain production declined by 10 per cent and root crop production was below the 1975 level. However, production shortfalls are expected to be offset by higher prices. Industry sales of tractors remained at the 1975 level.

Demand for new models of Massey-Ferguson tractors exceeded our ability to supply. Nevertheless, we continued to hold fourth place in the West German market. Our baler sales were nearly double those of 1975.

Italy

Industry sales during the year were favourably influenced by the exceptionally high farm income of the previous two years. In a buoyant combine market, almost one-third of the sales were machines specially converted to operate on hillsides.

Our farm machinery sales were 30 per cent above 1975, reflecting a high level of demand for Italian-produced machinery as well as demand for machinery from our other European plants. Our share of the tractor market rose to 18 per cent, compared to 14 per cent in 1975.

Other European Markets

Cereal crops in northern Europe were not seriously affected by drought and, in general, farm output and net income were somewhat above average and about equal to 1975. Industry tractor sales were the highest since 1966 but sales of combines and balers declined because of the drought and easy harvest conditions.

Asia, Africa and Australasia

Growth in the Region was generally satisfactory in 1976 with the exception of Australia and South Africa where economic and climatic conditions were unfavourable.

Australia

The depressed economic environment in Australia at the beginning of the year was aggravated in the farming sector by severe drought which had an adverse effect on farm income. Even in this environment Massey-Ferguson was able to increase its sales by 18 per cent.

The MF 200 series tractors, introduced in Brazil last year, will help strengthen Massey-Ferguson's dominant market position which it has held for 13 years. Major additions were made in 1976 to all our Brazilian plants including the Perkins diesel engine plant.

South Africa

Because of the difficult economic and climatic conditions in South Africa, the market for farm machinery was depressed in 1976. While Massey-Ferguson maintained or improved its share of the reduced markets for tractors and combines, total sales declined 27 per cent.

Iran

The joint venture project for the manufacture of tractors progressed as planned in 1976. Manufacture of some components was begun and will be expanded to planned levels when deliveries of machine tools and equipment are completed. Shipment of tractors for assembly at the Tabriz factory reached the planned level of 5,000 units in 1976. Proposals are under discussion for manufacture of implements and certain other Massey-Ferguson products.

Turkey

The market for tractors continued to expand in 1976 to 59,000 units and we held a substantial share of that market.

Shipments of Massey-Ferguson tractors to Turkey reached a record level of 17,000 in 1976, bringing our total deliveries since 1947 to 125,000. Local assembly and manufacture of tractors based on imported components makes up a significant proportion of our tractor sales. Proposals for an expanded assembly/manufacturing project in collaboration with Turkish partners are being studied.

Pakistan

During the year, about 7,000 Massey-Ferguson tractors were delivered for assembly at the Lahore factory of the Pakistan Tractor Company. An expansion of tractor manufacturing activity is being discussed with the government. High priority continues to be given by the government to the agricultural sector.

Major improvements have been made to MF 750 and MF 760 combine harvesters. Most of the changes, which include a new constant-mesh transmission and a quieter cab, increase operator comfort and ease of operation. The MF 760 is the largest combine made in North America.

Japan

Demand for farm machinery in Japan remained level in 1976 and this market continues to be an important one for Massey-Ferguson.

Other Territories

Strong competitive activity was evident during 1976 in the developed and developing countries of Asia and Africa but Massey-Ferguson products were able to retain customer preference. In response to market demand, tractors of higher horsepower were introduced along with other products such as sugar cane harvesters.

Along with its marketing and project efforts, Massey-Ferguson makes available agricultural advisory services to provide guidance on mechanization to farmers, estates and government agencies in the developing countries of Asia and Africa.

We continue to give high priority to the development of training services to meet the pressing needs of rural communities in the third world. In this activity, Massey-Ferguson works closely with international agricultural organizations.

Poland

Satisfactory progress was made during the year in implementing the collaboration agreements covering the modernization and expansion of the Polish tractor and diesel engine industries. Construction of factory buildings is underway and orders for major machine tools are being placed.

Outlook

Negotiations are at an advanced stage with governments and commercial interests of several developing countries for local assembly or manufacturing projects. These activities are intended to assist such countries with industrialization programs which will parallel the expansion of their agricultural sectors.

The increasing pace of farm mechanization in the Region results in a continuing demand for a broad range of our products. In countries whose reserves of oil and minerals provide the financial resources for rapid agricultural expansion, Massey-Ferguson products have a high priority. In other countries, where lack of funds currently inhibits agricultural development, our strong distribution system places us in an advantageous position whenever financial conditions permit such countries to develop their agricultural potential.

Industrial and Construction Machinery

Sales in 1976 were $380 million, an increase of seven per cent over 1975. Fourth quarter sales reached $129 million, a level which fulfilled the company's expectation that an annual sales rate of $500 million could be achieved during 1976. In unit terms, retail sales were up 11 per cent and exceeded wholesale sales, causing some decline in distributors' inventories.

Industry Results

The economic environment in 1976 was a difficult one for many industrial and construction machinery companies.

In the biggest single market, the United States, there was no gain in industry sales although the economy is well into a recovery period. In spite of several quarters of strong economic growth and a favourable outlook for housing starts, capital spending lagged and shipments and order backlogs of major manufacturers declined.

In Europe demand for industrial and construction machinery was somewhat stronger than anticipated as the result of government programs to stimulate the capital goods sector. Industry sales were up five per cent in units.

Brazil's restriction on imports seriously curtailed production plans for construction machines and credit constraints slowed sales.

In many developing countries there was extensive government-related tender activity and a high degree of competition. The OPEC nations continued to be major markets for construction machinery.

Sales by Markets

Massey-Ferguson's broad geographic distribution strength permitted an encouraging rate of growth in 1976 in contrast to many companies in the industry whose distribution and sales are largely in the North American market.

In Europe unit sales of industrial and construction machines to end-users were 40 per cent above 1975, resulting in an improved market share for most models. Much of Massey-Ferguson's success can be attributed to the actions taken to improve production and distribution following the acquisition late in 1974 of the Hanomag resources. Unit sales of Hanomag machines were up 25 per cent over 1975.

The MF D400C power shift crawler dozer launched in 1976 is a 90-horsepower, high-performance machine. Undercarriage options for hard soil or swamp conditions, as well as direct drive transmission and PTO options for agricultural drawbar applications are available.

Our North American sales of industrial and construction machines were at the reduced level of 1975, consistent with industry experience.

In Brazil, our largest market outside North America and Europe, a sales gain of 19 per cent in units was achieved.

Unit sales in the developing countries of Africa and Asia increased by five per cent.

New Product Development

Research and development expenditures to ensure future product leadership equals three per cent of our industrial and construction machinery sales. R.& D. centres are located in Detroit; Hanover, West Germany; and Aprilia, Italy – close to our major markets and factories. These centres operate on a coordinated basis, providing specialization of research effort.

Production of several new products commenced in 1976. In North America a new line of industrial tractors, tractor

Four new hydrostatic-drive excavators are being introduced in 1977. Pictured is the MF 450D, a tracked machine with high-pressure variable displacement hydraulics for efficient fuel usage. Buckets up to one cubic yard are available for excavating and trenching.

loaders, and tractor-backhoe-loaders has been well received. These products feature factory-installed cabs and many improvements in productivity, safety and operator comfort. A special version of the MF 811 skid-steer loader for use underground has been introduced to the mining market. North American reception of the Hanover-produced machinery continues to be excellent but sales have been restricted by the low level of industry demand.

The Aprilia factory introduced in 1976 a 90-horsepower crawler dozer with power shift transmission and with improvements in productivity, safety and operator comfort that are superior to competitive models in this class.

In addition to new models, a steady flow of product improvements has been introduced. For example, as a result of special engineering development, the Hanover-built MF D600C crawler dozer has demonstrated its high performance capability at altitudes of up to 13,000 feet in Bolivia.

Additional crawler tractor models and four excavator models will be launched in the early months of 1977. The excavators feature modern, high-pressure, variable displacement hydraulic systems.

Over the years Massey-Ferguson has concentrated its product development on types and sizes of machines which have the largest volume potential world-wide. The result is a product line which includes the most popular sizes of wheel loaders, crawler tractors, excavators and industrial wheel tractors. With appropriate attachments, these basic machines can be adapted to serve a wide variety of customer applications.

Production Capacity Increased

European capacity was increased by expansion of facilities in the United Kingdom and by further modernization and rationalization at the Hanover plant. In Aprilia, Italy, a factory extension was completed to permit increased production of excavators.

Major expansions and rearrangements in Detroit and Coventry will contribute to increased availability of industrial tractors. Plans were approved for a 54,000 square-foot extension to the Knowsley plant in the U.K. which manufactures tractor-backhoe-loaders. The Sorocaba factory in Brazil was extended by 20,000 square feet and production began of the MF 400 crawler tractor.

Product Legislation

The industrial and construction machinery industry must cope with a wide range of regulations affecting machine design and use – regulations which vary from country to country and sometimes within countries. The major areas of legislation deal with noise, exhaust emissions, safety and road regulations. Massey-Ferguson has worked closely with regulatory bodies over the years in complying with their requirements and advising on proposed changes. Our product design activity has benefited from this experience and new models launched recently or under development incorporate major legislative requirements. As a result, product features which are legal requirements in some markets provide benefits to customers in other markets. For example, in France, greatly reduced noise levels have been achieved at reasonable cost in response to legislation and the benefits of this development can be offered in other markets

Distribution Development

Industrial and construction machinery distribution is provided primarily through independent distributors and

dealers and their development is a major concern of Massey-Ferguson. The growth of our industrial and construction machinery sales reflects recent additions to our distribution system. A high proportion of these additions are long-standing Massey-Ferguson distributors and dealers who have undertaken to sell and service the company's industrial and construction machinery line. Frequently this requires separate premises and a specialized organization. This commitment provides a capability to handle the increasing variety and volume of products which the company will make available in future years.

Outlook

Indications are that the level of economic growth in 1977 will depend largely upon actions which seem likely to be taken by the United States, West Germany and Japan to stimulate the capital goods sector. We believe these actions will be limited in scope, however, resulting in a growth rate for industrial and construction machinery somewhat below that in 1976.

In the United States, increased residential construction and real growth in business investment should result in a gradual improvement in demand through 1977.

In Europe, where demand was strong in 1976, little growth is expected since the economies of the United Kingdom, France and Italy are likely to be under some restraint.

Demand in the rapidly developing oil-rich countries of the Middle East should show continuing improvement. In many of these countries, economic plans have been revised and growth on a more orderly basis can be anticipated.

Design improvements in these new tractor-backhoe-loaders, introduced in North America in 1976, include increased productivity and greater ease of operation. Massey-Ferguson's broad line of products make it a major competitor in the industrial machinery industry.

The largest crawler loader in the MF range, with buckets up to 3 1/4 cubic yards, the new MF 700D features power shift and a variable pitch torque converter as well as improved operator comfort and control. These machines are made in Hanover, West Germany.

Engines

Improved economic activity during 1976 resulted in record sales of Perkins diesel engines of $340 million, an increase of 15 per cent.

World-wide production of engines by Perkins, its Associates and licensees was 548,000, an increase of seven per cent over 1975. Of this production, 270,000 engines were built in the United Kingdom and 64,000 in Brazil. Production began in West Germany where 8,000 engines were built at Hanover, and in the United States where 5,000 were completed. Associates and licensees produced 201,000 Perkins engines, compared to 196,000 in 1975.

Capacity Expansion Programs

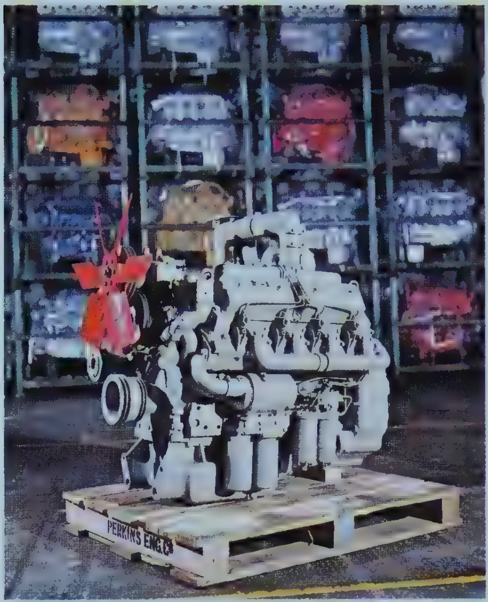
Capacity increases are planned to match an annual growth rate of eight per cent projected for the industry over the decade 1975-85. In addition to production start-ups at Hanover and Canton in 1976, progress has been made on expansion projects in the United Kingdom and Brazil, and by Associates and licensees in Peru, Iran, Yugoslavia and Korea.

United Kingdom

An $8.4 million extension to the research and development complex at Peterborough, U.K., completed in 1976, will maintain our position of leadership in high-performance diesel engine technology.

Investment in plant and machinery at Peterborough included a $2.4 million factory extension to increase production capability for finished engines and for critical componentry to support Perkins manufacturing facilities elsewhere.

Capital expenditure programs are under way to provide annual production capacity in the U.K. of 330,000 engines.



The V8.640, newest and most powerful Perkins diesel engine, was introduced in 1976 to meet growing world-wide demand for truck, construction and agricultural machinery capable of withstanding hard usage in a variety of operating and climatic conditions.

Brazil

During 1976 machining facilities were completed for four- and six-cylinder engines with annual capacity of 37,500 sets of components and our assembly and test capacity for these engines was raised from 12,000 to 22,000.

These capital expenditures are part of a five-year plan to increase capacity to 100,000 units a year by 1978-79.

West Germany

Production of the 165-cubic-inch four-cylinder engine for Volkswagen's light transporter vans began in the Hanover plant in November, 1975. During the year, this facility began assembly and test of another four-cylinder engine of 154 cubic inches for the European vehicle, farm and industrial machinery market.

Another significant step was the start of machining of three- and four-cylinder engine blocks of which 7,700 were produced in 1976. During 1977, the machining of six-cylinder engine blocks will begin.

United States

Conversion of the Canton, Ohio, facility to manufacture two major families of four-cylinder and six-cylinder Perkins engines will permit production of 20,000 units in 1977.

Planned construction of a second assembly line and additional test facilities will give Canton a capacity of 100,000 engines a year.

France

Perkins acquired during the last quarter an engine plant near Paris with capacity of 20,000 units per year, of which 7,000 will be four-cylinder 318-cubic-inch engines for export and the remainder will be rebuilt and reconditioned engines.

Associates and Licensees

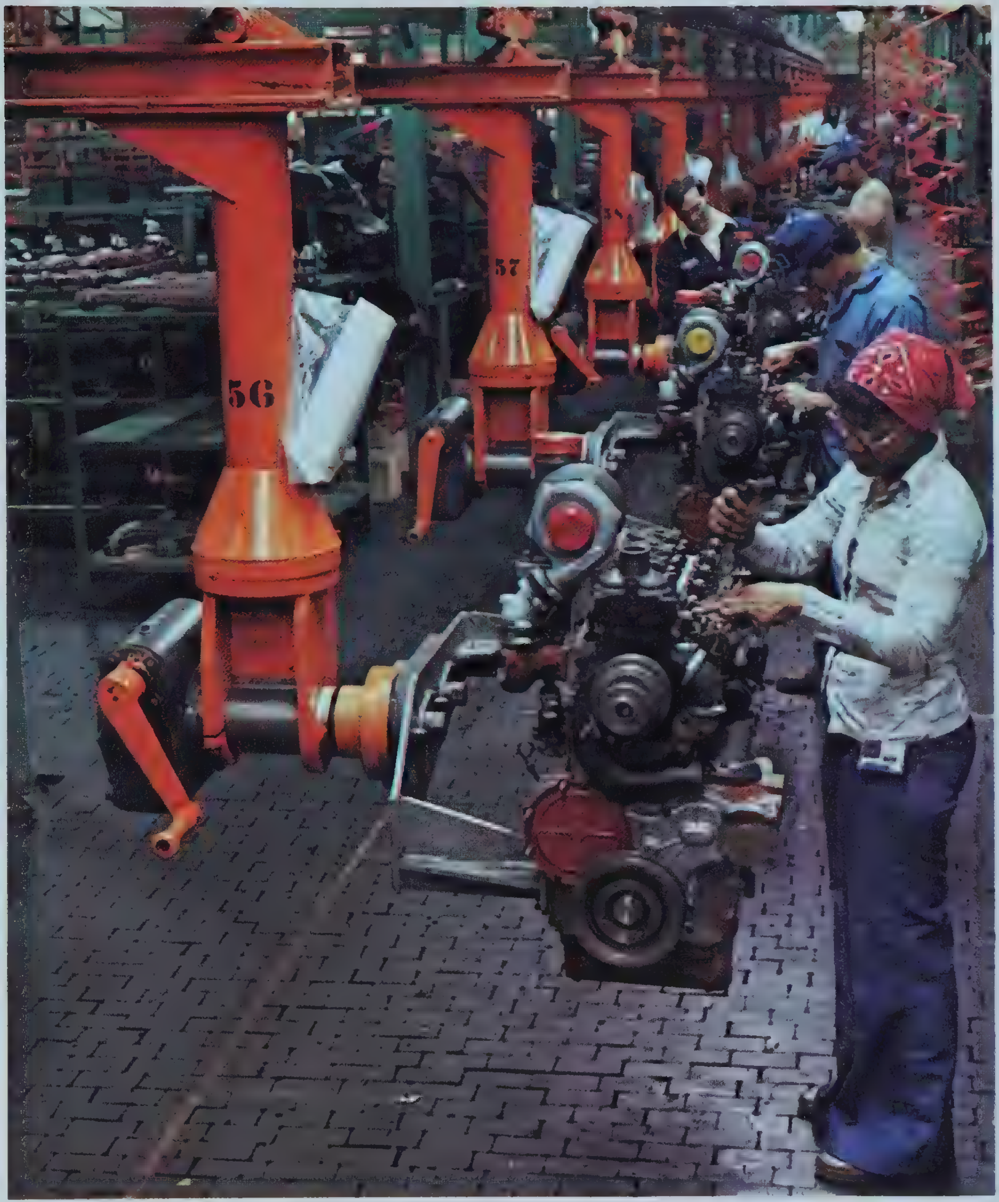
Spain

Motor Iberica S.A. began production of four-cylinder 236-cubic-inch and six-cylinder 354-cubic-inch engines. Additional machining capacity has been installed for the four-cylinder 165-cubic-inch cylinder blocks and heads to support assembly of these engines at the Perkins plant in Germany.

Argentina

Production in Argentina continues to increase substantially from 24,000 engines in 1975 to 33,000 engines in 1976. The outlook for 1977 is for continued strong growth.

Production began in April at Perkins' Canton, Ohio plant and exceeded 2,400 engines by the end of October. Scheduled to produce more than 20,000 engines in 1977, the 600,000-square-foot facility will eventually have an annual capacity of 100,000 engines.



Mexico

Our Associate in Mexico is transferring production to a new factory of 153,000 square feet at Toluca with a capacity of 36,000 engines a year. This is three times the capacity of the previous facility.

Yugoslavia

As a result of recent expansion, production reached 45,000 engines in 1976 and is planned to increase to 53,000 in 1977. Perkins and its licensee, Industrija Motora Rakovica, have been in collaboration for 22 years and provisions have been agreed to extend the association until 1980.

Poland

Progress has been maintained on the three- and four-cylinder engine projects under the agreement with Agromet Motoimport which calls for annual production of 90,000 units by 1980. Orders are being placed for machine tools to produce major components. The extension of buildings at the Ursus plant, near Warsaw, for engine manufacture and assembly is on schedule.

The project to produce six-cylinder engines at Andrychow under another agreement also proceeded satisfactorily during 1976 and orders were placed for machine tools. This project is being planned to achieve annual production capacity of 25,000 units by 1985.

South Korea

Production of Perkins engines by the Hyundi Motor Company will start early in 1977 as part of a major development of the Korean automotive industry. The plant has an annual capacity of 24,000 engines and will produce two models each of four-cylinder and six-cylinder engines.

Peru

Construction of a factory in Trujillo will permit commencement of engine production early in 1977. This joint venture undertaking of Perkins, Volvo A.B. of Sweden and the Peruvian government will provide annual capacity of 15,000 Perkins and Volvo engines. Demand for the Perkins altitude-compensated six-cylinder engine is strong in the Andean mountain region since this engine can provide fuel economy without loss of power up to an altitude of 10,000 feet.

Iran

Major machining lines have been ordered in preparation for production of diesel engines which are a key factor in Massey-Ferguson's tractor manufacturing project. Production start-up at Tabriz is planned for 1977 with a capacity objective of 30,000 engines by the early 1980's.

Bulgaria

Discussions are in progress with S.C.E. Avtoimpex to extend the existing licence agreement which has been in effect for 10 years.

New Products

The Engines Group is continuing a program of planned additions to capacity and to product range in order to meet the forecasted increase in world demand in the Perkins horsepower range from 3.8 million engines in 1975 to 8.3 million in 1985.

The Perkins range has been extended by the introduction of new products in 1976:

– a V8 640-cubic-inch engine in naturally aspirated and turbo-charged versions. This is a new generation of engines designed for

Perkins diesel-powered vehicles and equipment, including a 37-foot sailboat, were displayed at the official opening in July of the Canton, Ohio engines plant. The 46 pieces are representative of the products made by 600 original equipment manufacturers who use Perkins engines.

trucks and for large farm and construction machines.

- a four-cylinder 165-cubic-inch engine and six-cylinder 247-cubic-inch counterpart designed to meet the needs of the light commercial vehicle markets in Europe and North America.
- a new version of our six-cylinder 354-cubic-inch engine which provides greater power in the naturally aspirated six-cylinder range and complies with existing and planned smoke legislation. It is also available in a turbocharged form.

Design Concept

Perkins designs its engines so that each model can be adapted to meet a range of varying requirements such as vehicle, agricultural, industrial and construction machinery and general industrial and marine applications. Because of this rationalized design concept, Perkins engines offer substantial benefits for developing countries where training of mechanics can be simplified and stocks of spare parts can be kept at a minimum level. Perkins-designed engines also provide developing countries with an opportunity to reduce foreign exchange requirements and to lower their costs if they undertake local manufacture and assembly of engines.

Outlook

The diesel engine industry is now evolving at a pace and in directions that exceed our earlier predictions.

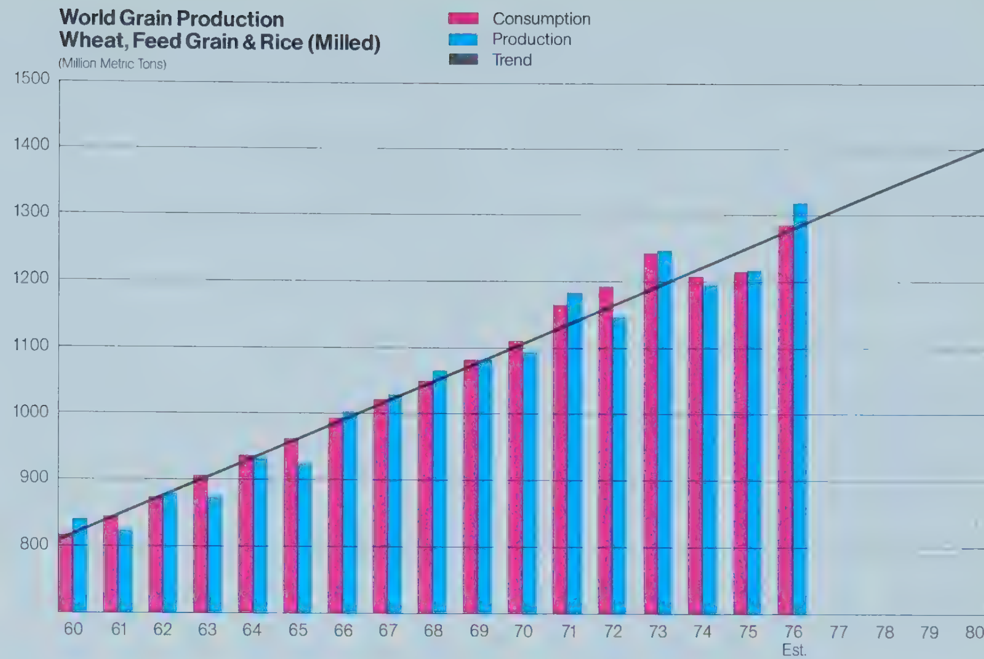
In Europe, where trucks generally are heavily dieselized, only 30 per cent of light commercial vehicles are now fitted with diesel engines. This category is likely to shift strongly to diesel power by the early 1980's and offers great potential for Perkins engines.

Perkins may also benefit from its research program to develop a power unit of lighter weight which could reduce the initial cost of the diesel engine while retaining its inherent economy and efficiency. Such an approach could further enlarge the growth opportunity for Perkins engines in light commercial vehicle applications.

With the forecasted increase in automotive applications for diesel engines in the North American market, particularly for light commercial vehicles; the growing requirements in Europe for diesel-powered light commercial vehicles; and the strengthening demand for diesel-powered equipment in the developing countries, the future of the diesel engine seems assured for the predictable future.

For 1977 the expectation of an expansionary economic environment in most parts of the world and the growing range of application of diesel power should support further growth for Perkins engines.

World Agriculture in Perspective



World production of wheat, feed grains and rice will establish a record in 1976. In total, production of all grains and of rice is estimated at 1,321 million metric tons, a level that is 100 million metric tons or eight per cent above 1975 and five per cent above the record of 1973.

Although farmers again responded to the world's short supply situation by harvesting a record 735 million hectares of grains, 1.5 per cent above the 1975 record, much of the 1976 increase in production must be attributed to unusual and fortuitous weather conditions.

Regional Variations in Production

In the U.S.S.R. timely and abundant rainfall produced a record crop. Latest announcements indicate that 1976 production will be almost 60 per cent above the drought-reduced output of 1975. This increase alone accounts for 80 per cent of the total 1976 gain in world production.

The United States and Canada produced record crops of both wheat and feed grains. Rainfall, although timely, was not abundant and subsoil moisture, severely depleted over much of the wheat and corn growing areas, must be replenished.

In Western Europe, the most severe drought in history was experienced in the United Kingdom and France. The winter crop which matures early escaped much of the drought and production equalled that of 1975, but spring-sown grain was down 12 per cent. The output of forage crops, sugar beets and potatoes also was severely reduced.

Eastern Europe experienced a late drought but total grain production was about equal to 1975. Early crops in India and China benefited from abundant rainfall but late crops suffered from dry conditions. Dry conditions in Australia are expected to reduce the wheat crop by 20 per cent.

North Africa experienced generally favourable conditions in 1976 and South African crops will be above those of a year ago. In South America both Brazil and Argentina should have sharply increased agricultural production.

1977 Outlook – Stocks and Production

The tight world supply of food and feed grains will be alleviated by the record 1976 production. Wheat supply is expected to exceed consumption in the short term and carry-over stocks at the close of the marketing year, June 30, 1977, are projected to increase from 62 to 97 million metric tons, the highest level since 1970. In contrast, consumption of feed grains is expected to increase sharply and carry-over stocks are expected to remain tight. The combined carry-over stocks of wheat, feed grains and rice may increase 40 million metric tons, about 10 million metric tons more than the annual increment required to maintain per capita consumption of the world's growing population.

Although the record output of 1976 will alleviate the immediate problems of grain supply shortages, the current situation must not be viewed with complacency. It should be remembered that the tight supply situation since 1973 has limited the consumption of grains to the level of production.

World grain production must increase by about two per cent in 1977 to maintain carry-over stocks at the currently projected level. If the 1977 crop equals that of 1976, carry-over stocks would decline to the level of the short-supply years 1973-75.

The current outlook for 1977 production is most uncertain. Subsoil moisture is dangerously low in the major grain producing areas of the United States, Canada, Australia and Western Europe. Above-average moisture conditions are required in these areas to replenish subsoil moisture reserves for the 1977 growing season. The U.S.S.R. will require abundant and timely rainfall to achieve a repeat performance in 1977. India must have highly favourable monsoons for the third year in a row and conditions in North Africa, China, Brazil and Argentina must remain favourable.

Availability of Arable Land

World grain production (wheat, feed grains and rice) increased from 1,151 million metric tons in 1972 to an estimated 1,321 million metric tons in 1976, a gain of 170 million metric tons or 15 per cent. During this period the area of harvested land increased from 675.5 to 734.7 million hectares, a gain of nine per cent. Additions to the harvested area account for 60 per cent of the output gain while increased yields have contributed only 40 per cent.

It is, we believe, most significant that the increase in harvested area in the United States from 1972 to 1976 was an estimated 13.6 million hectares or 23 per cent of the world increase. This large addition to harvested area was

World Total Grain Area (harvested)

(million hectares)(1 hectare - 2.471 acres)

	1972	1973	1974	1975	1976	1972-76 Change
Wheat and Feed Grains						
United States	57.6	63.6	67.7	70.9	71.2	13.6
Major Exporting Countries*	49.7	51.7	48.7	51.5	55.3	5.6
U.S.S.R.	112.0	118.2	119.1	120.1	120.0	8.0
Peoples Rep. of China	75.2	76.0	77.1	78.4	79.0	3.8
West Europe	41.5	41.8	42.2	41.4	42.3	0.8
East Europe	30.5	29.1	26.8	29.2	30.4	(0.1)
Brazil	11.5	11.9	13.2	15.0	16.7	5.2
India	61.4	65.5	61.3	63.8	65.2	3.8
Other	106.1	106.9	109.3	111.8	114.3	8.2
Total	**545.5**	**564.7**	**565.4**	**582.1**	**594.4**	**48.9**
Rice - Total	**130.0**	**134.0**	**137.4**	**140.8**	**140.3**	**10.3**
World Total	**675.5**	**698.7**	**702.8**	**722.5**	**734.7**	**59.2**

Comparative Total Grain Yields (harvested)

(metric tons per hectare)

	1972	1973	1974	1975	1976
Wheat & Feed Grains					
United States	3.89	3.66	2.95	3.41	3.48
Major Exporting Countries*	1.53	1.82	1.65	1.72	1.78
U.S.S.R.	1.41	1.78	1.54	1.10	1.75
Peoples Rep. of China	1.19	1.20	1.27	1.28	1.27
West Europe	3.21	3.29	3.37	3.15	2.92
East Europe	2.87	2.95	3.34	3.01	2.90
Brazil	1.30	1.47	1.39	1.35	1.42
India	.81	.82	.77	.83	.84
Other	1.06	1.04	1.06	1.09	1.05
Average	1.74	1.83	1.73	1.69	1.81
Rice – (milled)	1.57	1.62	1.63	1.70	1.65
World Average	**1.70**	**1.79**	**1.71**	**1.69**	**1.80**

* Argentina, Australia, Canada, South Africa & Thailand

relatively easy to achieve. It represents land which, having been taken out of production by government action in the 1960's, was readily available and required a minimum of additional inputs.

However, in the developing countries where the greatest need for food exists, the harvested area increased by only 8.2 million hectares or 14 per cent of the world increase. It must be emphasized that there would have been acute grain shortages in 1972-76 if it were not for the large increase in harvested areas in the United States where productivity is double that of the world average and three times that of the developing countries.

Population Growth Continues

World population passed the four billion mark in 1975 and will reach five billion by 1985, with 88 million people being added each year of this decade.

This growth in population now requires production increases of almost 30 million metric tons per year to maintain the food levels of the past 15 years. On this basis world production of wheat, feed grains and rice in 1980 should be 100 million metric tons higher than the 1976 record. More conservatively, if production per capita is simply maintained at the 1972-76 average, output in 1980 must be 85 million metric tons above 1976 and production in 1985 must be 222 million metric tons higher than 1976.

Food Production Prospects 1977-80

To meet the food requirements of a rapidly growing world population, grain production must increase in the next four years by an amount approaching the total wheat and feed grain output of three Canadas, and by 1985 the increase must approach the current output of the United States.

Achieving the output required by 1980 is a formidable task requiring unprecedented increases in technical and financial expenditures. The United States contribution to higher output is unlikely to be anywhere near the 1972-76 level. While some additional land is available in the United States, the price incentives required to bring such land into production or displace other crops would be prohibitive. A lower rate of expansion in the United States creates a major and immediate problem: the world, on average, must add two hectares of land for each hectare not added in the United States and in the developing countries the ratio is three to one. There is little likelihood that Western and Eastern Europe will increase production much beyond the pre-drought level.

Similarly, the U.S.S.R., China, Brazil, Argentina, Australia and Canada are unlikely to be able to produce incremental volumes in excess of those achieved in the past four years. The developing nations must, therefore, provide the major portion of the increased production required to maintain per capital grain production through 1980 by accelerating their 1972-76 production achievement by a factor of three.

The nations of the third world do not now have the infrastructures to support these increased food production, processing and distribution needs. A dilemma with major consequences will challenge all countries to look long and hard at this prospect for world agriculture.

Although world demand for farm machinery is expected to plateau in 1977 as a direct result of lower market prices in North America and the after-effects of the 1976 drought in Europe, in the longer term we continue to expect demand for farm machinery to be one of the major inputs needed to meet the growing food requirements of the world.

Recent Accounting Trends

FASB Statement No. 8

This year's financial statements have been prepared in accordance with the recently issued Statement No. 8 of the U.S. Financial Accounting Standards Board (FASB), which sets forth uniform accounting rules for the translation of transactions and financial statements denominated in foreign currencies.

The U.S. Securities & Exchange Commission recognizes Statement No. 8 as a generally accepted accounting practice and requires all registrants to conform or, in the case of foreign registrants such as Massey-Ferguson, to show the effect on their accounts if they were to apply this practice. Since the accounting principles of Statement No. 8 are acceptable under Canadian accounting practices, we have adopted them so that our statements may continue to be comparable with those of our major North American competitors.

In addition to achieving uniformity in reporting, a prime objective of Statement No. 8 is the preservation of the basis of value used in preparation of local currency financial statements. In the case of non-monetary items such as inventories, prepaid expenses and fixed assets, Statement No. 8 requires that they be translated at the rates of exchange in effect at the time of acquisition, so that their historic value is maintained when local currency statements are consolidated in U.S. dollar financial statements. In the case of assets and liabilities of a monetary nature – cash, receivables, and debt – translation at current rates of exchange is required in order to reflect properly their current value in U.S. dollars.

A further requirement of Statement No. 8 is that all exchange gains and losses be reflected immediately in the income statement regardless of whether they have been realized.

The FASB approach to the translation of foreign transactions and statements is very similar to the practice which Massey-Ferguson has followed in the past in preparing its consolidated financial statements. Massey-Ferguson has translated its long-term debt at current rates of exchange and consequently has no accumulated gain or loss to report on this item, unlike many companies which have heretofore valued long-term debt on an historical basis.

However, Massey-Ferguson has in the past translated its inventories at current rates, considering them to be exposed to currency rate changes because of price controls in many countries. In fact, Statement No. 8 recognizes the exposed nature of inventories by requiring them to be written down if their historic dollar value is in excess of their market value in local currency at a current rate of exchange. Previously, Massey-Ferguson reported the full impact of exchange fluctuations on its inventories at the time they occurred and recorded any subsequent adjustments to their value at the time of sale. Since the FASB method of reporting the impact of exchange fluctuations does not change their effect on our operations, it will not cause a change in the way the company manages its exchange exposures.

Massey-Ferguson pursues a defensive policy in managing exchange exposures. Consistent with interest and other cost considerations and with sound financing principles, our objective is to ensure, as far as possible, that the exposed monetary assets of our subsidiaries are financed with obligations in corresponding currencies or that other hedging actions are taken to minimize exposure to exchange losses.

The adoption of FASB No. 8 accounting rules had a cumulative favourable impact on the net worth of the company for the years prior to 1975 of $6,110,000. For 1975 our financial reports have been restated in detail for comparison with the current year, resulting in additional net income of $4.1 million (23 cents a common share). For 1976 the adoption of Statement No. 8 has added $3.9 million to net income (21 cents a common share). Therefore the accounting change has had little effect on the relationship between the two years.

Accounting for Inflation

One of the most discussed subjects in accounting circles in the past few years has been the manner in which the impact of inflation should be reflected in financial statements. Although not a new topic, it takes on a greater importance in the highly inflationary period of the 1970's.

Traditional accounting has required that certain balance sheet items be expressed in terms of historic costs rather than current values. These two methods produce widely differing results in the calculation of depreciation expense. For example, depreciation recorded on an historic basis for a 20-year-old building would be much less than the depreciation that would be recorded if the building were valued at current costs. Also, long-term debt can be serviced and retired more readily in a period when inflation is adding to sales values and to net income.

One of the effects of using historic values can be to overstate profits which then results in higher taxes. Recognition of this possible overstatement of profits by investors is one of the factors that is believed to have contributed to lower price/earnings ratios for stocks in recent years. On the other hand, any revaluation of assets will increase retained earnings and improve balance sheet ratios.

Accounting bodies and governments generally acknowledge the need to recognize the present value of the assets and liabilities of a corporation. Unfortunately, there is no consensus as to how this should be done.

The initial reaction in accounting circles favoured the development of "price-level-adjusted accounts"; that is, the application to the accounts of a general price index such as the Consumer Price Index. Under this approach, assets are segregated by year of acquisition in order to adjust their values to reflect changes in the index since their acquisition. The assets, when consumed, would be charged against the current year's results at the index-adjusted values. This method has the advantage of being objective and simple, but since no single index is adequate for all needs (particularily of a multinational company) the resulting values would not necessarily be more meaningful. Moreover, for such items as machine tools, technological and other changes may be relevant in determining current value but would not be taken into consideration when applying an index to determine value.

As a result of these shortcomings there has been an increasing swing away from the price index approach toward "current value reporting" which attempts to assign a current value to non-monetary assets. However, current value can be calculated in several ways: replacement cost of existing assets; cost of alternative new facilities; discounted value of future income flow, etc. It is unlikely that any one of these approaches would be adequate, and in combination they would represent a complex, time-consuming and costly annual undertaking for a large company. Perhaps the greatest weakness of the current value approach is the subjective nature of the result.

The treatment of monetary items, notably debt, is a subject of particular controversy in all of the proposed approaches to valuation. Proponents of these approaches argue that today's debt is less burdensome than the same debt a year ago and that any new accounting technique should recognize that factor.

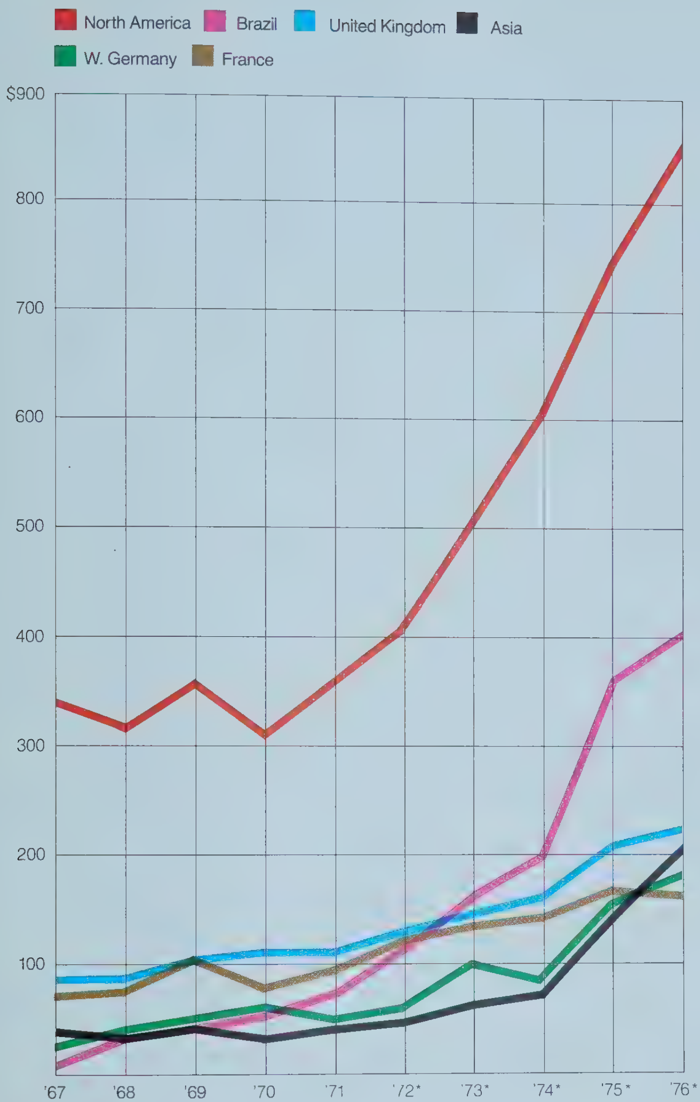
Accounting authorities in some of the countries in which Massey-Ferguson operates have issued a variety of proposals on how to account for the impact of inflation. For a number of years, certain Latin American countries have issued an official inflation index which has been used in preparation of financial statements and for local taxation purposes by our subsidiaries in those countries. Similarly, certain of our subsidiaries have undertaken periodic revaluations of their fixed assets for purposes of preparing their financial statements. These local accounting approaches are not reflected, however, in Massey-Ferguson's world-wide consolidated statements.

In the United Kingdom, accounting authorities have recently issued a pronouncement on inflation accounting after many years of study, and in Canada the Institute of Chartered Accountants is expected to issue a statement on this topic later in 1977. Massey-Ferguson will continue to watch closely all developments in this field.

Since Massey-Ferguson's shares are registered with the U.S. Securities and Exchange Commission, it will be necessary for us to provide supplementary information next year as to the current replacement values of fixed assets and inventories as well as the impact of such values on the income statement. It must be emphasized that such adjusted statements are supplementary information and that historic statements remain the offical accounts.

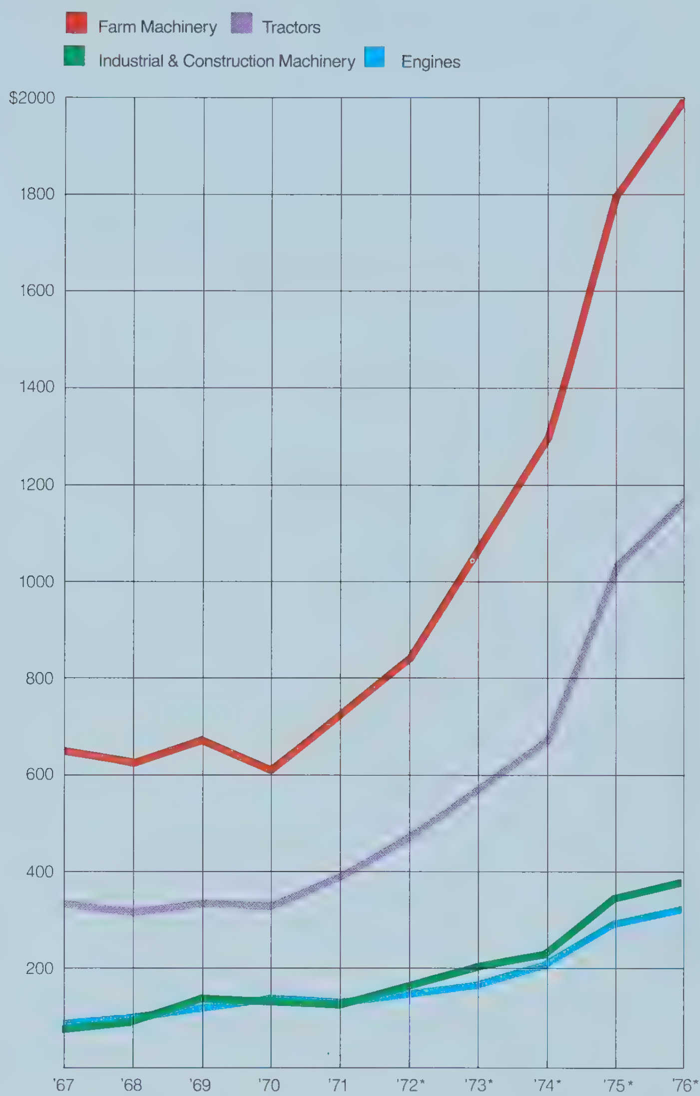
We must now undertake revaluations of assets for our 1977 accounts in order to comply with the new disclosure requirements of the SEC. In doing so, we are concerned that the wide variety of approaches and opinions in this area may result in supplementary information that could confuse rather than assist shareholders and the investing public. Until such adjusted statements are recognized by government authorities, companies will continue to carry the burden of taxation based on "apparent" profits rather than on the lower level of profits that would result from "current value" accounting.

Net Sales by Markets
(Millions of U.S. Dollars)



*Settlement accounting: see page 27

Net Sales by Products
(Millions of U.S. Dollars)



*Settlement accounting: see page 27

Geographical Distribution of Assets Employed
(Millions of U.S. Dollars)

	1976	1975	1974	1973*	1972*
Europe	$ 884.7	837.5	687.0	537.2	408.1
North America	$ 876.0	737.7	589.6	487.7	472.0
Latin America	$ 381.9	267.7	225.0	133.5	86.3
Australasia	$ 89.4	91.0	77.2	55.7	44.3
Africa	$ 72.3	62.7	40.6	33.4	30.4
Asia	$ 0.8	0.3	0.6	1.5	1.3
Total	$ 2,305.1	1,996.9	1,620.0	1,249.0	1,042.4

*It is not practicable to include the impact of FASB 8 (see Note 2) for years prior to 1974.

Auditors' Report

To the Shareholders of
Massey-Ferguson Limited:

We have examined the consolidated balance sheets of Massey-Ferguson Limited as at October 31, 1976 and 1975, and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. We have also examined the combined statements of assets and liabilities of the Finance Subsidiaries of Massey-Ferguson Limited as at October 31, 1976 and 1975, and the combined statements of income and retained earnings for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly (a) the consolidated financial position of Massey-Ferguson Limited as at October 31, 1976 and 1975 and the results of its consolidated operations and the changes in its consolidated financial position for the years then ended, and (b) the combined assets and liabilities of the Finance Subsidiaries as at October 31, 1976 and 1975 and the results of their operations for the years then ended, all in accordance with generally accepted accounting principles applied (after giving retroactive effect to the change, which we approve, in the method of currency translation as referred to in Note 2 to the consolidated financial statements) on a consistent basis during the period.

Clarkson, Gordon & Co

Toronto, Canada
December 14, 1976.

Chartered Accountants.

Massey-Ferguson Limited

(Incorporated under the Laws of Canada)

Consolidated Statements of Income and Retained Earnings

Years ended October 31, 1976 and 1975

(Thousands of U.S. Dollars)

Income	1976	1975 (As Restated -Note 2)
Net Sales (Notes 1(c) and 10(b))	$2,771,696	$2,513,302
Costs and Expenses:		
Cost of goods sold	2,117,514	1,938,894
Marketing, general and administrative expenses	308,738	267,928
Engineering and product development expenses	60,571	56,363
Interest on long-term debt	58,067	40,164
Other interest (net) (Note 10(d))	58,709	69,292
Net exchange losses	7,817	8,428
Minority interest	1,145	3,488
Miscellaneous income	(10,242)	(8,946)
	2,602,319	2,375,611
Profit before Income Taxes, and Items Shown Below	169,377	137,691
Income taxes (Notes 1(h) and 5)	61,178	47,874
Profit before Items Shown Below	108,199	89,817
Equity in net income of finance subsidiaries (Note 1(a))	6,399	4,530
Equity in net income of Associate companies (Note 1(d))	3,316	4,479
Net Income for the Year	$ 117,914	$ 98,826
Income per Common Share (in U.S. Dollars) (After Dividends on Preferred Shares)	$6.04	$5.31

Retained Earnings

	1976	1975
Balance at Beginning of Year		
As previously reported	$ 425,408	$ 346,757
Add adjustment arising from change in the method of currency translation (Note 2)	10,259	6,110
As restated	435,667	352,867
Net income for the year	117,914	98,826
Deduct:		
Dividends (Note 7(a))	(25,474)	(14,582)
Expenses relating to issue of preferred shares	(2,110)	(1,444)
Balance at End of Year	$ 525,997	$ 435,667

(See accompanying Notes to Consolidated Financial Statements)

Massey-Ferguson Limited

Consolidated Balance Sheets

October 31, 1976 and 1975

(Thousands of U.S. Dollars)

Assets	1976	1975 (As Restated -Note 2)
Current Assets:		
Cash	$ 6,960	$ 20,107
Receivables (Note 3)	387,263	323,859
Products sold to North American dealers under deferred floor plan arrangements (Note 1(c))	170,514	161,066
Inventories, valued at the lower of cost or net realizable value—		
Raw materials and work in process	514,616	460,485
Finished goods	452,207	418,141
Total company inventories	966,823	878,626
Prepaid expenses and other current assets (Note 5)	83,655	72,203
Total Current Assets	1,615,215	1,455,861
Investments:		
Wholly owned finance subsidiaries, at equity in net assets (Note 1(a))	63,987	55,165
Associate companies (Note 1(d))	69,418	56,340
Other (Note 10(d))	8,736	8,107
	142,141	119,612
Fixed Assets:		
Land	22,588	19,809
Buildings	249,203	224,753
Machinery and equipment	563,125	455,041
Production tooling	84,919	60,004
Total fixed assets, at cost	919,835	759,607
Less accumulated depreciation and amortization (Notes 1(e) and 4)	399,851	358,692
	519,984	400,915
Other Assets and Deferred Charges (Note 10(d))	27,805	20,538
	$2,305,145	$1,996,926

On behalf of the Board:

John A. McDougald, Director

Albert A. Thornbrough, Director

Liabilities and Shareholders' Equity	**1976**	1975 (As Restated – Note 2)
Current Liabilities:		
Bank borrowings	$ 113,430	$ 170,246
Current portion of long-term debt	66,447	47,296
Accounts payable and accrued charges	632,975	532,963
Income, sales and other taxes payable	59,927	69,207
Advance payments from customers	10,614	10,453
Total Current Liabilities	883,393	830,165
Deferred Income Taxes (Note 5)	70,994	44,353
Long-Term Debt:		
Bonds, debentures, notes and loans (Note 9)	595,808	499,634
Less instalments maturing within one year	66,447	47,296
	529,361	452,338
Minority Interest in Subsidiaries	18,376	18,319
Shareholders' Equity:		
Share capital (Note 8)		
Preferred Shares	100,136	39,196
Common Shares	176,888	176,888
Retained earnings (including retained earnings of unconsolidated finance subsidiaries: October 31, 1976–$46,228; October 31, 1975–$39,860) (Note 7)	525,997	435,667
	803,021	651,751
	$2,305,145	$1,996,926

(See accompanying Notes to Consolidated Financial Statements)

Massey-Ferguson Limited

Consolidated Statements of Changes in Financial Position

Years ended October 31, 1976 and 1975
(Thousands of U.S. Dollars)

	1976	1975 (As Restated -Note 2)
Source of Funds:		
Income for the year	$117,914	$ 98,826
Add (deduct):		
Depreciation, and amortization of production tooling	54,341	45,432
Increase in deferred income taxes	26,641	17,267
Minority interest	1,145	3,488
Equity in earnings of finance subsidiaries in excess of dividends received	(6,368)	(4,501)
Equity in earnings of Associate companies in excess of dividends received	(2,287)	(3,552)
Profit on disposal of fixed assets	(610)	(2,199)
Funds from Operations	190,776	154,761
Proceeds from long-term debt issues	160,279	196,707
Net proceeds from preferred share issue (Note 8)	58,830	37,752
Proceeds on disposal of fixed assets	1,863	4,530
Common shares issued under options		23
Total Funds Provided	$411,748	$393,773
Use of Funds:		
Additions to fixed assets	$174,663	$170,408
Repayment of long-term debt	83,256	70,101
Dividends	25,474	14,582
Investments in Associate companies and finance subsidiaries	13,245	11,489
Increase in other assets and deferred charges	7,267	4,848
Reductions in minority interest (including $962 of dividends in 1976, $1,068 in 1975, paid by subsidiary companies)	1,088	1,075
Increase in other investments	629	2,610
Increase in working capital as set out below	106,126	118,660
Total Funds Used	$411,748	$393,773
Changes in Elements of Working Capital:		
Working Capital at Beginning of Year	$625,696	$507,036
Current assets—increase (decrease):		
Cash	(13,147)	6,783
Receivables	63,404	14,474
Products sold to North American dealers under deferred floor plan arrangements	9,448	37,557
Company inventories	88,197	161,701
Prepaid expenses and other current assets	11,452	7,143
	159,354	227,658
Current liabilities—(increase) decrease:		
Bank borrowing and current portion of long-term debt	37,665	(38,262)
Accounts payable and accrued charges	(100,012)	(66,071)
Income, sales and other taxes payable	9,280	(13,147)
Advance payments from customers	(161)	4,774
Dividends payable		3,708
	(53,228)	(108,998)
Net Increase in Working Capital	106,126	118,660
Working Capital at End of Year	$731,822	$625,696

(See accompanying Notes to Consolidated Financial Statements)

Notes to Consolidated Financial Statements

Years ended October 31, 1976 and 1975
(in U.S. Dollars)

1 Summary of Significant Accounting Policies

The accounting policies followed by the company are those that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Consolidation

The accompanying consolidated financial statements consolidate the accounts of all subsidiary companies except for the wholly owned finance subsidiaries, the combined statements of which are set out separately rather than being consolidated (see page 32). The investment in these subsidiaries is carried in the Consolidated Balance Sheets at the equity in their net assets and their earnings have been included in the Consolidated Statements of Income. The company considers that this basis of presentation with respect to finance companies is more informative than full consolidation since (a) it affords a basis of comparison with other major companies in the industry, the larger of which are U.S. based and do not consolidate their finance subsidiaries, (b) it recognizes that these subsidiaries' operations are financed on a different basis from that applicable in the case of manufacturing and trading operations, with substantially greater restrictions on the transfer of assets from the finance companies, and (c) it avoids the implication that the concept of working capital may be appropriately applied to the finance companies' operations, or that the assets of the finance companies are readily available to the manufacturing subsidiaries. By way of supplementary information, summarized balance sheets at October 31, 1976 and 1975, and summarized statements of income for the years then ended, are set out on page 34 to show the over-all position if the accounts of the finance subisidiaries had been consolidated.

(b) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: inventories (including products sold to North American dealers under deferred floor plan arrangements), non-current assets, certain prepaid expenses and deferred income taxes, and related charges or expenses, at historical rates of exchange; all other assets and liabilities, at exchange rates prevailing at the end of the year; income and expenses (other than those indicated above), at average rates for the year. Translation gains or losses are included in income. This basis of translation reflects certain changes from the method followed in previous years, as described in Note 2.

(c) Sales and Settlement Accounting

Sales are recorded at the time of shipment to distributors, dealers and other customers, except in the case of transactions with North American dealers under deferred floor plan arrangements.

These latter transactions are accounted for by using the settlement accounting method. Under this method North American sales of farm, industrial, construction and recreation equipment, and the related income, are not reflected in the accounts until settlement is received from the dealer. Amounts receivable from North American dealers under deferred floor plan arrangements are classified as a separate item on the Consolidated Balance Sheets and are carried at the lower of cost or net realizable value of the finished goods concerned rather than at selling price.

This method is considered more appropriate for transactions with North American dealers as the company, following industry practice, finances the major portion of its dealer inventories by means of floor plan notes. These notes have terms extending up to one year or more, are for the most part interest free, and settlement is not ordinarily received by the company until the products are sold by the dealer. During this period the company occasionally grants price reductions to dealers on slow moving goods, and may also absorb certain other costs prior to settlement from the dealer. Outside North America, on the other hand, the majority of dealers provide their own financing and pay for goods delivered in accordance with normal trade terms.

(d) Investments in Associate Companies

Investments in Associate companies (i.e., those in which the company owns 50 per cent or less of the voting shares), where the company exercises a significant influence over operating and financial policies, are accounted for on the equity method. Under this method, the company's share of the net income of these Associate companies is included currently in the Consolidated Statements of Income rather than when realized through dividends, and the investments are carried in the Consolidated Balance Sheets at original cost plus the company's share of undistributed earnings since acquisition. Investments in other Associate companies continue to be carried at cost (1976 - $4,769,000; 1975 - $3,096,000).

(e) Fixed Assets

Additions to fixed assets are recorded at cost. Depreciation of facilities is provided on a straight line basis in substantially all of the companies, at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	10 to 50 years
Machinery and equipment	3 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and minor production changes is charged against income at the time

of purchase.

(f) Research and Development Costs

Research and development costs, substantially all of which are grouped with Engineering and Product Development Expenses, are charged as incurred (1976 - $50,531,000; 1975 - $40,594,000).

(g) Pensions

A substantial portion of the companies' employees are covered by government and company pension plans. The costs of these plans are charged against income in the year premiums or funding requirements are payable. Past service costs in trusteed plans are generally being amortized and funded over periods of up to 25 years (see Note 6(d)).

(h) Income Taxes

The company follows the deferred method of tax allocation in accounting for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) can result in deferred or prepaid taxes.

Investment tax credits are accounted for on the flow-through method.

The benefits of loss carry-forwards are generally not recognized until realized. The multinational nature of Massey-Ferguson's operations is such that, on a continuing basis, some subsidiaries are incurring losses (without recognition of the potential carry-forward tax benefits) at the same time that other subsidiaries are realizing the tax benefit of previous losses. On a consolidated basis these annually recurring tax recoveries are not considered to be extraordinary in nature and are accordingly reflected as a reduction of current income tax charges when realized.

Dividend payments from subsidiary and Associate companies in a number of countries are subject to withholding and other foreign taxes at various rates and additional Canadian taxes may be payable in subsequent years in respect of certain future dividend remittances. Provision is made for the related taxes on dividends anticipated in the future out of accumulated earnings. Of the balance of unremitted earnings included in consolidated retained earnings at October 31, 1976, a portion would not be subject to tax; the remainder (estimated at approximately $259,000,000 at October 31, 1976 and $214,000,000 at October 31, 1975) is part of the amount that has been re-invested on a long-term basis and such taxes have accordingly not been provided.

2 Change in Accounting Practice

The currency translation method described in Note 1(b) was adopted in 1976 to conform with recent recommendations of the U.S. Financial Accounting Standards Board (Statement No. 8), and the 1975 comparative figures have been restated on the new basis. The balance of retained earnings at the beginning of 1976 reflects a retroactive credit of $10,259,000 (1975 - $6,110,000) representing the cumulative adjustments required in respect of prior years. The difference of $4,149,000 ($0.23 per common share) is applicable to the year 1975 and is reflected in the restatement of the 1975 comparative figures for net income. The effect of the change was to increase 1976 net income by approximately the same amount as in 1975, i.e., by $3,899,000 ($0.21 per common share).

The practice in prior years was similar to that presently followed except that inventories (including products sold to North American dealers under deferred floor plan arrangements), prepaid expenses and deferred income taxes were translated at current rates of exchange, related charges and expenses were translated at average rates for the year, and an abnormal unrealized translation gain was deferred in 1973 and applied to absorb net translation losses in 1974 and 1975.

3 Receivables

(a) Receivables include amounts due from finance subsidiaries of $13,049,000 in 1976 and $7,682,000 in 1975.

(b) Receivables are shown net of the following provisions:

	1976	1975
Allowance for doubtful notes and accounts	$18,419,000	$16,258,000
Volume and performance bonuses, returns and other allowances	4,668,000	2,151,000
Unearned interest	1,330,000	1,868,000
	$24,417,000	$20,277,000

4 Depreciation and Amortization

Depreciation, and amortization of production tooling charged to operations are as follows:

	1976	1975
Depreciation	$39,922,000	$34,028,000
Amortization	14,419,000	11,404,000
	$54,341,000	$45,432,000

5 Income Taxes

The company's accounting policies with respect to income taxes are set out in Note 1(h). Prepaid and deferred income taxes are carried on the balance sheets as follows:

Prepaid income taxes ($23,385,000 in 1976 and $32,006,000 in 1975) resulting from the use of the settlement accounting method and other current timing differences between taxable and reported income are grouped with Prepaid Expenses and Other Current Assets.

Deferred income taxes ($70,994,000 in 1976 and $44,353,000 in 1975) primarily resulting from capital cost allowances claimed for tax purposes in excess of depreciation and amortization recorded in the accounts are shown separately.

Income taxes shown in the Consolidated Statements of Income have been reduced by investment tax credits of $5,030,000 in 1976 and $1,015,000 in 1975; they have also been reduced by tax credits arising from prior years' losses which, together with other tax adjustments relating to prior years, amount to $6,900,000 in 1976 and $3,100,000 in 1975.

At October 31, 1976, certain companies had tax losses aggregating $29,767,000 (October 31, 1975 - $30,-400,000) available to be carried forward for which potential recoveries have not been recognized in the accounts. These loss carry-forwards expire as follows: 1977 - $5,100,000; 1978 - $7,500,000; 1979 - $3,400,-000; 1980 - $2,900,000; 1981 and beyond - $10,900,-000. At current tax rates, the tax recoveries which would result will, if realized, amount to approximately $13,100,-000 (1975 - $15,000,000).

The relationship between income tax expense and pre-tax accounting income is affected by a variety of tax rates in the many countries in which the company operates as well as by investment, loss carry-forward and other tax credits.

6 Contingent Liabilities, Commitments, etc.

(a) The total contingent liabilities relating to notes receivable discounted and bills guaranteed etc., were as follows: October 31, 1976 - $92,600,000; October 31, 1975 - $114,600,000.

(b) Under subscription agreements relating to short-term bank borrowings and senior subordinated notes of the two North American finance subsidiaries, Massey-Ferguson Limited has agreed that it will ensure that assets are maintained in those companies in certain specified relationships with their indebtedness.

(c) Approved capital expenditure programs outstanding at the year-end were as follows: October 31, 1976 - $188,000,000 (including commitments of approximately $65,000,000); October 31, 1975 - $134,000,000 (including commitments of approximately $69,000,000).

(d) Total pension expense including past service costs was $74,600,000 in 1976 and $62,600,000 in 1975. The increase in 1976 resulted largely from improved benefits in certain plans and normal growth patterns. The actuarially computed value of vested benefits exceeded the market value of pension fund assets and balance sheet accruals by approximately $31,000,000 at October 31, 1976 ($71,000,000 at October 31, 1975). The reduction during 1976 is due to a change in the actuarial assumption regarding the earnings rate on pension fund assets and increases in their market values. The total unfunded past service obligation was approximately $104,000,000 at October 31, 1976 ($100,000,000 at October 31, 1975). See note 1(g) regarding the basis of accounting for pension costs.

7 Dividends and Dividend Restrictions

(a) Dividends were declared as follows:

	1976	1975
Preferred Shares ($2.50 Cdn. per share annually)		
- Series A	$ 4,044,000	$ 1,945,000
- Series B (issued March 31, 1976)	3,056,000	
Common Shares (Cdn. $1.00 per share in 1976, $0.70 per share in 1975)	18,374,000	12,637,000
	$25,474,000	$14,582,000

The common share dividends shown above for 1976 comprise four quarterly dividends, whereas those for 1975 comprise only three, due to the timing of dividend declarations.

(b) The long-term loan agreements of certain subsidiary companies contain restrictions on the payment of dividends to the parent company. In addition, the Supplementary Letters Patent relating to the Preferred Shares and certain agreements of the parent company contain restrictions on the payment of dividends on common shares. Under the most restrictive of these, approximately $403,000,000 of consolidated retained earnings at October 31, 1976 is not available for the payment of dividends to holders of common shares of Massey-Ferguson Limited.

(c) Of consolidated retained earnings, $349,000,000 at October 31, 1976 ($284,000,000 at October 31, 1975), represents the company's equity in profits of various subsidiaries and Associate companies outside North America which have not been remitted to Canada. Transfers of earnings from such companies are generally subject to the approval of exchange control authorities, but permission to pay dividends, within reasonable and prudent financial limits as required for corporate purposes, is normally obtainable.

(d) Under the Canadian Government's anti-inflation program (presently scheduled to be in force until December 31, 1978) , dividends to the company's common shareholders during the year ending October 13, 1977 may not exceed $1.08 (Canadian) per share.

8 Share Capital, Stock Options and Reservation of Shares

The authorized preferred capital consists of 4,000,000 shares of the par value of $25.00 (Canadian) each, issuable in series of which 2,400,000 shares were issued in 1976 at par for $60,000,000 (Canadian) cash (U.S. $61,000,000), designated as $2.50 (Canadian) Cumulative Redeemable Preferred Shares Series B. The remaining 1,600,000 shares designated as Series A were issued in 1975 for $40,000,000 Canadian (U.S. $39,000,000). The company is obligated to purchase in the open market up to 16,700 preferred shares per month if the price falls below $25.00 (Canadian) per share, up to a maximum of 200,400 shares in any one year. At October 31, 1976, the company had purchased and cancelled 1,500 Series B shares under this obligation. Commencing five years after issue, the preferred shares may be redeemed at a premium of $1.25 (Canadian), such premium reducing by $0.25 (Canadian) per share annually for five years, and thereafter at par.

The authorized common share capital consists of 25,-000,000 shares without nominal or par value, of which 18,250,350 common shares were outstanding at October 31, 1976 and 1975.

There are reserved for possible future employee stock options 215,350 unissued common shares. No options were outstanding at October 31, 1976 or 1975.

9 Long-Term Debt

(a) Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31:

	(Thousands of U.S. Dollars) October 31 1976	(Thousands of U.S. Dollars) October 31 1975
MASSEY-FERGUSON (A.C.T.) PROPRIETARY LIMITED (AUSTRALIA):		
Bank Loan maturing 1978-80 repayable in U.S. dollars bearing interest at 1⅛% above Eurodollar interbank rate	$ 8,500	$ 15,000
MASSEY-FERGUSON DO BRASIL S.A. (BRAZIL):		
Bank Loans maturing 1977-84 repayable in U.S. dollars bearing interest at ¾% – 2% above Eurodollar interbank rate	31,100	29,200
MOTORES PERKINS S.A. (BRAZIL):		
Bank Loans maturing 1977-83 repayable in U.S. dollars bearing interest at ⅞% – 2% above Eurodollar interbank rate	16,000	12,500
MASSEY-FERGUSON INDUSTRIES LIMITED (CANADA):		
5⅞% Secured Promissory Note maturing 1977-85	12,734	13,489
MASSEY-FERGUSON GmbH (GERMANY):		
7½% Bank Loan maturing 1977-79	16,680	15,640
Bank Loan maturing 1976 bearing interest at 1¼% above Euromark interbank rate		13,685
Secured Purchase Loan maturing 1977 discounted at 10% per annum	11,373	9,694
MASSEY-FERGUSON-HANOMAG INC.& CO. (GERMANY):		
Bank Loan maturing 1977 bearing interest at 4¼% above Deutsche Bundesbank discount rate	14,595	13,685
MASSEY-FERGUSON HOLDINGS LIMITED (UNITED KINGDOM):		
7½% Loan Stock maturing 1977-92	18,355	24,415
Bank Loans maturing 1977-81 bearing interest at 1½% - 2½% above bank base rate, London interbank offered rate, or London sterling deposit market rate	33,133	40,203
MASSEY-FERGUSON INC. (U.S.A.):		
5¼% Promissory Notes maturing 1977-83	970	16,000
8.55% Promissory Notes maturing 1977-83	30,900	
5⅞% Subordinated Notes maturing 1977-84	16,680	18,240
PERKINS DIESEL CORPORATION (U.S.A.):		
Capitalized value of property and equipment lease terminating 1993 discounted at 10%	27,799	28,419
GENERAL PURPOSE LOANS (Repayable in U.S. dollars):		
9% Sinking Fund Debentures maturing 1977-82	12,500	14,000
9½% Debentures maturing 1991	75,000	
9¾% Sinking Fund Debentures maturing 1977-82	38,000	40,000
9% Bank Loan maturing 1979	10,161	
Promissory Note maturing 1977-80 bearing interest at 1⅛% above Eurodollar interbank rate	19,444	25,000
Promissory Notes maturing 1978 bearing interest at 1% above Eurodollar interbank rate	15,000	15,000
Bank Standby Loans maturing 1978-80 in the amount of U.S. $95,000,000 bearing interest at ⅝% - 1½% above Eurodollar interbank rate. Commitment fee ¼% - ⅝% on unused portion (Note 9(c))	8,340	70,000
OTHER LONG-TERM DEBT (Note 9(d))	91,884	55,464
	509,148	469,634
BANK BORROWINGS (Note 9(c))	86,660	30,000
	$595,808	$499,634

(b) Sinking fund requirements and debt maturities during the next five years are as follows: 1977 - $66,447,000; 1978 - $109,261,000; 1979 - $118,050,000; 1980 - $62,745,000; 1981 - $30,163,000.

(c) Included under the classification Long-Term Debt are current bank borrowings of $86,660,000 ($30,000,000 in 1975). These borrowings are covered by the unused portion of the General Purpose Long-Term Bank Stand-by Loans which were not being utilized at the year end, but $55,000,000 of which have since been taken up and it is the company's intention to take up the balance during 1977.

(d) Other long-term debt includes long-term loans each of which is less than $10,000,000.

10 Other Information

(a) Aggregate remuneration to persons who served as Directors and Officers of Massey-Ferguson Limited at any time during the year was as follows:

	18 Directors	18 Officers
	(5 Officers were also Directors)	
Remuneration paid by:		
Massey-Ferguson Limited (holding company)	$92,000	$1,017,000
Subsidiary companies - principally Massey-Ferguson Inc. (U.S.A.)	7,000	970,000
	$99,000	$1,987,000

(b) The company's manufacturing and marketing operations are highly integrated and thus it is the opinion of the Directors that the company has only one line of business. Within this business, sales by major categories in millions of U.S. dollars were:

	1976	1975
Farm machinery	$2,000.6	$1,812.3
Industrial & construction machinery	380.4	354.8
Engines	339.7	294.8
Other products	51.0	51.4
Net sales	$2,771.7	$2,513.3

(c) Other assets and deferred charges at October 31, 1976 include housing loans of $181,000 to Officers ($419,000 at October 31, 1975).

(d) Changes in presentation:

(i) Other Investments include a first mortgage receivable due 1977-79 previously shown separately ($2,705,000 at October 31,1976 and $4,231,000 at October 31, 1975) and certain investments previously included in Other Assets and Deferred Charges.

(ii) Interest income of $35,177,000 in 1976 and $24,323,000 in 1975 (previously grouped with Interest and Sundry Income), has been deducted from Other Interest expense in the Consolidated Statements of Income.

Finance Subsidiaries

Massey-Ferguson Finance Company of Canada Limited
Massey-Ferguson Credit Corporation and its finance subsidiary
Massey-Ferguson-Perkins Finance Company Limited
Perkins Engines Finance Company Limited
Massey-Ferguson Finance A.G.
Massey-Ferguson Finance (Australia) Limited

Combined Statements of Income and Retained Earnings

Years ended October 31, 1976 and 1975

(Thousands of U.S. Dollars)	1976	1975
Revenue:		
Interest and finance fees (including income from affiliates of $15,530 in 1976 and $10,290 in 1975)	$ 51,167	$ 39,469
Discounts	3,936	3,119
	55,103	42,588
Expenses:		
Administrative expenses	10,784	8,810
Interest on long-term debt	11,397	7,708
Interest on short-term debt (including $54 paid to affiliates in 1976 and $260 in 1975)	19,693	15,122
Provision for doubtful accounts	117	262
Exchange adjustments	140	768
	42,131	32,670
Income before Income Taxes	12,972	9,918
Income taxes:		
Current	6,274	3,249
Deferred	299	2,139
	6,573	5,388
Net Income for the Year	6,399	4,530
Retained Earnings at Beginning of Year	39,860	35,359
	46,259	39,889
Deduct dividends on preferred shares	31	29
Retained Earnings at End of Year	$ 46,228	$ 39,860

Combined Statements of Assets and Liabilities

October 31, 1976 and 1975

(Thousands of U.S. Dollars)	1976	1975
Assets:		
Cash	$ 5,949	$ 12,957
Receivables (Note 2)	619,448	419,571
Prepaid expenses	1,829	1,531
	$627,226	$434,059
Liabilities:		
Short-term notes payable —Banks	$155,857	$111,598
—Others	177,136	98,695
Due to affiliates	13,049	7,682
Dealer deposits	10,445	7,332
Accrued charges	7,628	5,690
Income taxes payable	636	1,211
Deferred income taxes	6,541	7,712
Long-term debt (Note 3)	191,947	138,974
	563,239	378,894
Equity of Massey-Ferguson Limited:		
Share capital	17,759	15,305
Retained earnings (Note 3(c))	46,228	39,860
	63,987	55,165
	$627,226	$434,059

(see accompanying Notes to Combined Finance Subsidiaries' Statements)

Notes to Combined Finance Subsidiaries' Statements

Years ended October 31, 1976 and 1975 (In U.S. Dollars)

The accounting policies followed by the companies are those that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

1 Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation (U.S.A.) and its finance subsidiary, Massey-Ferguson-Perkins Finance Company Limited (U.K.) (formerly Massey-Ferguson Export Finance Company Limited), Perkins Engines Finance Company Limited (U.K.), Massey-Ferguson Finance A.G. (Switzerland), and Massey-Ferguson Finance (Australia) Limited. During the year Massey-Ferguson-Perkins Finance Company Limited purchased the net assets of Perkins Engines Finance Company Limited which is no longer active. Also during 1976 Massey-Ferguson Finance (Australia) Limited was formed and commenced operations.

While the books of the United States finance subsidiaries are maintained, and their tax returns filed, on a modified cash basis of accounting, the accompanying financial statements incorporate adjustments to reflect the financial position of these subsidiaries on an accrual basis of accounting.

(b) Exchange Translation

The statements of finance subsidiaries located outside the United States are translated into U.S. dollars substantially as follows: assets and liabilities at exchange rates prevailing at the end of the year; share capital at rates prevailing at the date of issue; revenue and expenses at average exchange rates during the year. These translation procedures conform in all material respects with the recommendations of the U.S. Financial Accounting Standards Board.

(c) Finance Income

Interest and discounts are generally taken into income in declining amounts over the life of the contract using an effective yield method.

(d) Income Taxes

The companies follow the deferred method of tax allocation in accounting for income taxes.

(e) Classification of Assets and Liabilities

In accordance with industry practice, the assets and liabilities have not been classified as current or non-current.

2 Receivables

Receivables are shown net of the following provisions: unearned interest and discount 1976 - $95,201,000 (1975 - $58,884,-000); allowance for doubtful accounts 1976 – $4,659,000 (1975 - $3,675,000).

At October 31, 1976 approximately $359,021,000 (before provisions) or 50 per cent of the receivables mature beyond one year ($214,863,000 or 45 per cent at October 31, 1975), as follows:

	1976	1975
13 – 24 months	$171,313,000	$109,105,000
25 – 36 months	113,075,000	66,982,000
37 – 48 months	56,152,000	30,540,000
over 48 months	18,481,000	8,236,000
	$359,021,000	$214,863,000

Included in the North American receivables are interest bearing wholesale receivables from North American dealers of $9,005,-000 in 1976 and $9,168,000 in 1975.

Changes in receivables were as follows:
Purchases 1976 – $1,037,830,000 (1975 – $694,452,000);
Liquidations 1976 – $794,125,000 (1975 – $556,066,000).

3 Long-Term Debt

(a) Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31:

	(Thousands of U.S. Dollars) October 31 1976	October 31 1975
MASSEY-FERGUSON FINANCE (AUSTRALIA) LIMITED:		
12% Senior Notes maturing 1979	$ 4,908	
MASSEY-FERGUSON FINANCE COMPANY OF CANADA LIMITED:		
9¾% Senior Debentures maturing 1977-80	5,408	$ 5,728
8½% Subordinated Notes maturing 1977-84	4,939	5,297
11⅛% Subordinated Notes maturing 1979-91	7,203	
MASSEY-FERGUSON CREDIT CORPORATION (U.S.A.):		
5¼% Senior Notes maturing 1977-86	25,000	25,000
7⅝% Senior Notes maturing 1977-88	15,960	17,220
9¾% Senior Notes maturing 1979-91	[illegible]	
8% Senior Debentures maturing 1979-93	[illegible]	20,000
Senior Bank Standby Loans maturing 1977-80 bearing interest at ¾% - 1⅝% above Eurodollar interbank rate in the amount of $40,000,000. Commitment fee ½% per annum on unused portion. This facility was not in use at October 31, 1976 (Note 3(d))		
5½% Subordinated Notes maturing 1977-80	3,600	4,600
7⅞% Subordinated Notes maturing 1977-88	3,990	4,305
10% Subordinated Notes maturing 1979-91	15,000	
7¾% Subordinated Notes maturing 1977 payable in Swiss Francs	7,189	6,824
Subordinated Notes maturing 1978 bearing interest at 1% above Eurodollar interbank rate in the amount of $10,000,000. Commitment fee ½% per annum on any unused portion.	10,000	
	158,197	88,974
Short-term notes payable (Note 3(d))	33,750	50,000
	$191,947	$138,974
Senior	$140,026	$117,948
Subordinated	[illegible]	21,026
	$191,947	$138,974

(b) Instalments due and maturities during the next five years are as follows: 1977 – $13,482,000; 1978 – $37,543,000; 1979 – $23,056,000; 1980 – $20,753,000; 1981 – $10,297,000.

(c) In connection with the agreements relating to the long-term debt, $37,043,000 of the companies' retained earnings are restricted as to dividends.

(d) Included under the classification long-term debt are short-term notes payable of $33,750,000 ($50,000,000 in 1975). It is the company's intention to refinance these notes on a long-term basis using either the unused portions of the available long-term credit facilities or other long-term credit arrangements.

Supplementary Information

Showing Financial Position and Results of Operations had the Finance Subsidiaries been Consolidated. (See Note 1(a) to Consolidated Finance Statements)

Summarized Statements of Income

Years ended October 31, 1976 and 1975

(Thousands of U.S. Dollars)

	1976	1975 (As Restated -Note 2)
Income:		
Net Sales	$2,771,696	$2,513,302
Revenue of finance subsidiaries (excluding inter-company)	39,573	32,298
	2,811,269	2,545,600
Costs and Expenses:		
Cost of goods sold, marketing, general, administrative, engineering and product development expenses	2,490,920	2,271,586
Interest on long-term debt	69,464	47,872
Other interest (net)	69,676	74,795
Net exchange losses	7,957	9,196
Minority Interest	1,145	3,488
Miscellaneous income	(10,242)	(8,946)
	2,628,920	2,397,991
Profit Before Income Taxes and equity in net income of Associate companies	182,349	147,609
Income Taxes	67,751	53,262
Profit Before equity in net income of Associate companies	114,598	94,347
Equity in net income of Associate companies	3,316	4,479
Net Income for the Year	$ 117,914	$ 98,826

Summarized Balance Sheets

October 31, 1976 and 1975

(Thousands of U.S. Dollars)

	1976	1975
Assets		
Current assets:		
Cash	$ 12,909	$ 33,064
Receivables	699,699	553,397
Products sold to North American dealers under deferred floor plan arrangements	170,514	161,066
Company inventories	966,823	878,626
Prepaids	77,395	70,962
Total Current Assets	1,927,340	1,697,115
Receivables due beyond one year	299,233	180,339
Investments	78,154	64,447
Fixed Assets (net)	519,984	400,915
Other assets and deferred charges	27,805	20,538
Total Assets	$2,852,516	$2,363,354
Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank borrowings and short-term notes payable	$ 446,423	$ 380,539
Current portion of long-term debt	79,929	51,032
Accounts payable and accrued charges	639,989	536,036
Income, sales and other taxes payable	60,563	70,418
Advance payments from customers and dealer deposits	21,059	17,785
Total Current Liabilities	1,247,963	1,055,810
Deferred income taxes	75,330	49,898
Long-term debt	707,826	587,576
Minority interest	18,376	18,319
Total Liabilities	2,049,495	1,711,603
Shareholders' Equity:		
Share capital		
Preferred shares	100,136	39,196
Common shares	176,888	176,888
Retained earnings	525,997	435,667
	803,021	651,751
Total Liabilities and Shareholders' Equity	$2,852,516	$2,363,354

Sales Statistics

(Millions of U.S. Dollars)

		1976 % of Total	1976 Amount $	1975* $	1974* $	1973* $	1972* $	1971 $	1970 $	1969 $	1968 $	1967 $
Net Sales By Markets	**North America**											
	Canada	7.7	213.2	184.0	142.4	100.2	85.8	69.1	65.2	79.9	66.8	84.4
	United States	23.2	641.9	562.4	471.6	422.2	330.8	293.6	247.8	285.9	256.6	263.1
	Total	30.9	855.1	746.4	614.0	522.4	416.6	362.7	313.0	365.8	323.4	347.5
	Europe											
	United Kingdom	8.1	225.4	211.6	157.5	146.8	128.9	116.2	114.3	106.1	95.5	95.1
	West Germany	6.6	183.1	157.5	88.0	102.6	62.4	56.4	57.8	47.5	35.6	28.8
	France	6.0	166.7	171.3	142.4	137.4	119.2	95.6	88.5	110.7	93.1	89.0
	Italy	4.3	119.1	89.5	59.3	54.5	45.7	39.4	41.8	37.3	30.9	28.6
	Scandinavia	3.3	90.4	86.9	56.1	45.6	42.3	41.3	39.7	34.7	29.7	33.3
	Benelux	1.4	39.8	33.3	19.0	15.8	10.5	9.3	11.6	8.4	7.6	6.7
	Spain	0.7	19.3	18.6	16.7	10.2	8.3	4.3	8.1	9.0	4.1	5.3
	Austria	0.6	15.9	14.4	10.3	10.9	8.3	10.1	8.2	6.0	5.5	6.2
	Other	1.1	30.5	30.4	17.5	16.1	14.3	13.9	14.0	11.5	10.5	8.7
	Total	32.1	890.2	813.5	566.8	539.9	439.9	386.5	384.0	371.2	312.5	301.7
	Latin America											
	Brazil	14.6	403.6	363.1	213.3	164.5	121.5	76.4	58.8	43.0	38.0	20.5
	Argentina	2.6	72.6	51.7	51.1	29.2	15.5	10.1	9.6	3.8	2.2	2.9
	Mexico	1.3	37.4	35.0	19.0	11.3	11.5	11.5	11.7	11.8	10.3	11.8
	Other	1.3	35.8	51.8	32.7	23.5	15.9	21.8	14.7	11.5	10.5	7.5
	Total	19.8	549.4	501.6	316.1	228.5	164.4	119.8	94.8	70.1	61.0	42.7
	Asia											
	Turkey	2.8	76.4	44.3	24.4	29.0	16.2	8.1	3.9	10.0	12.2	13.6
	Iran	1.4	38.5	15.5	0.8	0.3	0.1	0.2	0.1	0.9	0.2	0.5
	Pakistan	1.0	29.2	15.9	5.4	1.4	2.8	1.8	4.0	4.0	1.6	6.1
	Japan	0.6	17.2	23.4	12.5	7.7	6.5	7.4	5.4	4.3	3.3	3.2
	Other	1.6	44.6	48.4	25.2	19.1	17.8	23.3	20.1	19.8	15.8	17.7
	Total	7.4	205.9	147.5	68.3	57.5	43.4	40.8	33.5	39.0	33.1	41.1
	Africa											
	Rep. of South Africa	2.7	73.0	99.2	70.2	45.5	43.6	44.7	38.0	38.9	35.2	33.9
	Libya	0.5	14.8	28.9	19.0	11.4	7.7	4.2	0.6	3.4	2.9	1.3
	Sudan	0.4	10.5	3.5	1.7	0.3	4.8	0.5	2.6	1.4	1.1	1.4
	Other	1.8	51.3	63.9	36.1	26.4	21.5	27.5	27.5	24.3	19.0	17.4
	Total	5.4	149.6	195.5	127.0	83.6	77.6	76.9	68.7	68.0	58.2	54.0
	Australasia	4.4	121.5	108.8	92.4	74.3	50.5	42.6	43.9	55.3	59.8	57.8
	Total	100.0	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4	848.0	844.8
Net Sales By Quarters	First	18.0	498.5	437.4	339.6	253.9	177.7	197.6	172.8	158.8	153.3	150.2
	Second	25.7	713.6	604.1	434.1	359.2	287.8	256.4	249.7	248.2	224.3	248.4
	Third	24.1	667.5	645.2	457.5	380.5	327.4	249.4	235.9	265.7	207.4	218.8
	Fourth	32.2	892.1	826.6	553.4	512.6	399.5	325.9	279.5	296.7	263.0	227.4
	Total	100.0	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4	848.0	844.8
Net Sales By Products	**Farm Machinery**											
	Tractors	42.3	1,171.5	1,020.5	674.4	575.5	474.2	396.0	331.0	339.6	317.8	335.6
	Grain Harvesting	13.0	359.8	340.1	248.3	202.6	143.3	128.0	99.4	148.4	135.6	140.6
	Hay Harvesting	1.9	52.8	51.2	39.6	37.1	28.5	29.3	26.1	30.1	26.2	27.2
	Other Products	6.5	179.1	163.8	146.8	115.0	79.3	69.4	62.2	66.5	64.1	68.5
	Parts	8.6	237.4	236.7	187.1	152.9	117.3	105.7	91.9	87.0	84.4	80.2
	Total	72.2	2,000.6	1,812.3	1,296.2	1,083.1	842.6	728.4	610.6	671.6	628.1	652.1
	Industrial & Construction Machinery											
	Machines	11.4	317.2	287.9	198.6	181.1	142.2	121.6	128.1	128.0	88.6	73.3
	Parts	2.3	63.2	66.9	40.9	32.0	25.2	16.6	16.4	14.5	9.5	7.0
	Total	13.7	380.4	354.8	239.5	213.1	167.4	138.2	144.5	142.5	98.1	80.3
	Engines											
	Engines	17.5	486.0	402.1	263.0	220.8	197.7	166.1	179.4	160.7	132.8	127.8
	Deduct MF	(7.2)	(200.4)	(168.7)	(104.8)	(87.1)	(80.0)	(59.1)	(57.8)	(55.8)	(48.2)	(49.3)
	Parts	2.0	54.1	61.4	46.6	39.2	32.6	28.1	23.8	22.2	18.1	15.4
	Total (Net)	12.3	339.7	294.8	204.8	172.9	150.3	135.1	145.4	127.1	102.7	93.9
	Other Products	1.8	51.0	51.4	44.1	37.1	32.1	27.6	37.4	28.2	19.1	18.5
	Total	100.0	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4	848.0	844.8

*Settlement accounting: see page 27 for 1972-76 only. It is not practicable to restate individual years prior to 1972.

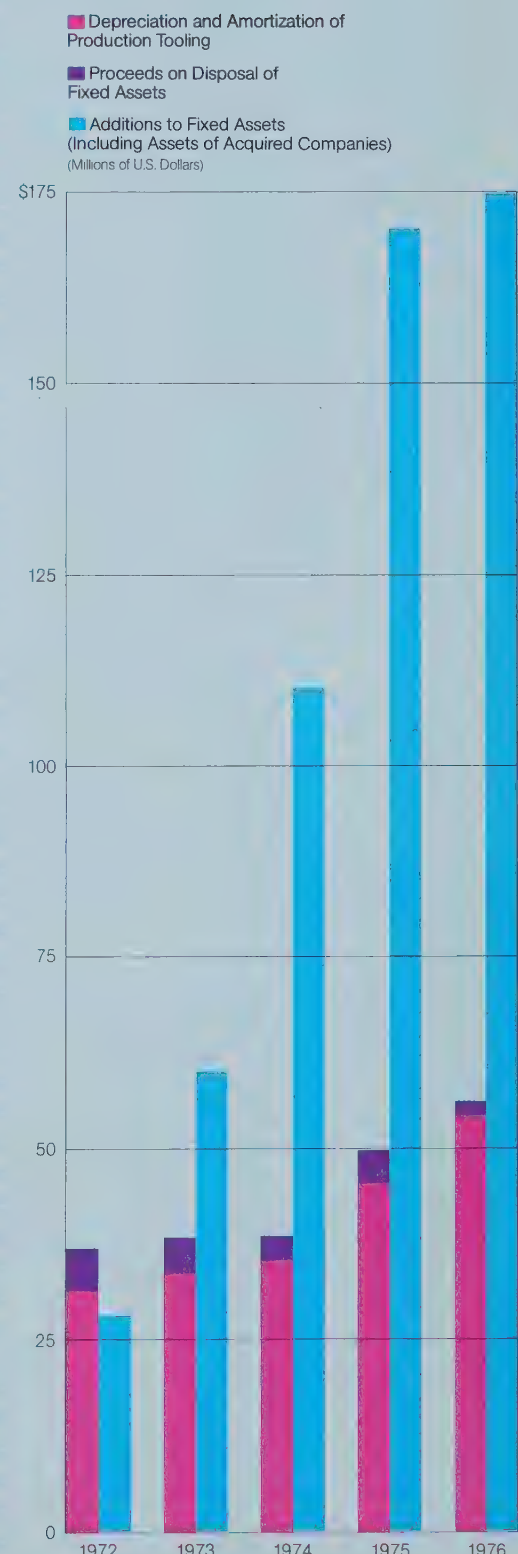
Financial Statistics

(Millions of U.S. Dollars except as indicated)

Summary of Operations		1976	1975	1974	1973*	1972*
Net sales	$	2,772	2,513	1,785	1,506	1,192
Gross profit	$	654	574	407	339	258
Net expenses (excluding interest)	$	368	327	242	216	175
Interest expense (net)	$	117	109	61	35	32
Profit before taxes,etc.	$	169	138	104	88	51
Income taxes	$	61	48	37	36	16
Finance subsidiaries and Associate cos.	$	10	9	7	6	6
Net income	$	118	99	74	58	41 **
Dividends–Common	$	18	13	15	9	–
–Preferred	$	7	2	–	–	–
Income retained	$	93	84	59	49	41
Financial Condition						
Working capital	$	732	626	507	439	349
Additions to fixed assets	$	175	170	110	60	28
Depreciation and amortization	$	54	45	35	34	32
Total assets	$	2,305	1,997	1,620	1,249	1,042
Current ratio		1.8	1.8	1.7	1.9	1.9
Asset turnover ratio		1.2	1.3	1.1	1.2	1.1
Debt/equity ratio		0.9	1.0	0.9	0.7	0.8
Liabilities and Shareholders' Equity						
Current	$	883	830	721	500	410
Other	$	619	515	369	279	212
Shareholders' equity	$	803	652	530	470	420
Return on closing equity	%	15	15	14	12	10
Per Cent Increase From Previous Year						
Sales	%	10.3	40.8	18.5	26.3	15.8
Cost of goods sold	%	9.2	40.7	18.9	24.9	14.7
As a Per Cent of Sales						
Cost of goods sold	%	76.4	77.1	77.2	77.5	78.4
Gross margin	%	23.6	22.9	22.8	22.5	21.6
Marketing, general and administrative	%	11.1	10.7	11.4	12.4	13.4
Engineering and product development	%	2.2	2.2	2.4	2.2	2.3
Profit before taxes, etc.	%	6.1	5.5	5.8	5.9	3.6
Net income	%	4.3	3.9	4.1	3.9	3.4 **
Per Common Share ($U.S)						
Net sales	$	151.87	137.71	97.80	82.59	65.53
Income	$	6.04	5.31	4.05	3.20	2.23 **
Income retained	$	5.07	4.62	3.23	2.70	2.23
Equity	$	38.51	33.56	29.04	25.77	23.09
Funds from operations	$	10.45	8.48	6.38	5.38	3.40
Toronto Stock Exchange quotes, High	$	32	18⅛	24⅜	26⅛	18⅛
($Canadian) Low	$	16¾	12⅛	11½	15¾	8½
Dividends declared ($ Canadian)	$	1.00	0.70	0.80	0.50	–
Dividends paid ($Canadian)	$	1.00	0.90	0.80	0.30	–
Shareholders/Employees						
Employees		68,200	64,572	60,822	51,267	45,888
Shareholders–Common shares		31,039	35,844	34,541	34,041	38,260
–Preferred shares		10,620	5,046			
Common shares outstanding (thousands)		18,250	18,250	18,248	18,236	18,195
Preferred shares outstanding (thousands)		3,999	1,600			

*It is not practicable to include the impact of FASB 8 (see Note 2) for years prior to 1974, which includes the cumulative effect of all prior years.

**Includes extraordinary gain on sale of surplus property of $8 million ($0.45 per common share).



Management Discussion and Analysis of Summary of Operations

Consolidated 1976 sales were $2.8 billion, 10 per cent higher than 1975 sales of $2.5 billion. This rate of increase was considerably below the increases recorded in the two previous years (41 per cent in 1975; 19 per cent in 1974) when inflation was a significant contributor to sales increases. The rate of increase was also affected adversely in this period because of a steady erosion of the value of most foreign currencies relative to the U.S. dollar in which we report.

Gross profit as a percentage of sales improved to 23.6 per cent in 1976 vs. 22.9 per cent in 1975. The improvement is the result of a number of factors. The severe shortages of components with resultant production disruptions and special resourcing actions of prior years were largely overcome in 1976. Unlike 1975, there were no significant production interruptions due to strikes at Massey-Ferguson or supplier plants. Benefits of the last two years' large capital investment program are also beginning to be realized.

While price controls continue in effect in a number of countries, the company generally has been able to increase prices sufficiently to cover cost increases. In most cases, however, margins tend to be eroded either by delays in receiving authorizations for price increases or by unwillingness of price control authorities to recognize all elements of cost in determining price adjustments.

Marketing, general and administrative expenses at $309 million increased to 11.1 per cent of sales after reaching a low for recent years of 10.7 per cent in 1975. This reflects a return to more competitive conditions in our industry and the costs associated with the introduction of a number of new products. Engineering and product development expenses continue to run at 2.2 per cent of sales to support our development program for new products. Total interest expenses of $116.8 million were 4.2 per cent of sales, down from 4.4 per cent in 1975. Long-term debt interest increased because of significantly increased long-term debt in 1976 offset, however, by a reduction in net short-term interest because of reduced borrowing. Despite improved short-term interest rates in certain key countries, such as the United States and West Germany, this reduction in expense was limited by escalating rates in Latin America.

Minority interest, which is the minority shareholders' portion of the income of certain subsidiary companies, was $1.1 million, a substantial decline from $3.5 million in 1975. The only significant minority interest is in South Africa which had lower income than in 1975. In addition the retroactive application of FASB No. 8 (see Note 2 to the financial statements), improved South African 1975 profit but caused a deterioration in their 1976 profit when expressed in U.S. dollars.

In prior years, we have had a category entitled "Profit on Disposal of Capital Assets" and one entitled "Interest and Sundry Income", the latter consisting of interest earned on open accounts of dealers, royalty income and miscellaneous fees. The major portion of "Interest and Sundry Income" consisted of short-term interest income on dealer open accounts. In was considered more appropriate this year to offset this interest income against interest expenses incurred in financing our short-term receivables, and these two items are included in our accounts in a category entitled "Other Interest (Net)". The remaining sundry financial income (royalties and miscellaneous fees) has been grouped with profit on disposal of fixed assets to create a new category entitled "Miscellaneous".

The tax rate of 36 per cent in 1976, was very close to the 1975 rate. The relationship between income taxes and pre- tax profits can be significantly affected by the varying rates of tax applicable to taxable income of subsidiary companies and year-to-year fluctuations in the contribution of each subsidiary to consolidated income.

As a result of the significant increase in the size of the finance companies' portfolios, particularly in North America, the income from this source rose from $4.5 million in 1975 to $6.4 million in 1976.

Associate company income declined from $4.5 million in 1975 to $3.3 million in 1976 because of the exchange loss resulting from the large devaluation of the Mexican peso in late 1976, and the devaluation of the Spanish peseta early in the year. Our Associate companies recorded satisfactory sales growth in 1976.

Capital expenditures were maintained at record levels, increasing from $170 million in 1975 to $175 million in 1976. Capital expenditures which were $28 million in 1972 have increased each year since then. In 1976 there were no major acquisitions and capital expenditure was associated largely with new products and the continuation of prior years' production expansion programs. It is expected that expenditures will continue at the $175 million level for 1977.

Common Share Prices on the Toronto Stock Exchange and Dividends Paid
(Canadian Funds)

	1976			1975		
Quarter Ended:	**Price Range High**	**Low**	**Div. Paid**	**Price Range High**	**Low**	**Div. Paid**
Jan. 31	$24⅝	$16¾	$ .25	$16⅝	$12⅛	$ .20
April 30	32	23⅝	.25	18⅛	14⅜	.20
July 31	29¾	24⅝	.25	18	15¼	.25
Oct.31	28¼	21⅜	.25	18	15½	.25

Factories — Products Manufactured

Farm Machinery

Argentina

Rosario (220,000 sq. ft.)
Agricultural Tractors.

Australia

Bundaberg (207,000 sq. ft.)
Sugar Cane Harvesters.

Melbourne (Sunshine) (1,555,000 sq. ft.)
Combines; Implements; Loaders; Backhoes.

Brazil

Canoas (500,000 sq. ft.)
Combines; Implements; Backhoes; ICM Accessories.

Sao Paulo (400,000 sq. ft.)
Agricultural Tractors.

Canada

Brantford (Combine Plant) (807,000 sq. ft.)
Combines; Combine Cabs.

Brantford (Foundry) (255,000 sq. ft.)
Castings.

Brantford (Implement Plant) (813,000 sq. ft.)
Plows; Harrows; Mowers and other Implements; Combine and Tractor Components.

Brantford (Steel Processing Plant) (264,000 sq. ft.) Steel Stampings.

Cambridge (61,000 sq. ft.)
Castings.

Toronto (2,021,000 sq. ft.)
Balers; Manure Spreaders; Forage Harvesters; Tractor Cabs; Combine and Tractor Components.

France

Beauvais (927,000 sq. ft.)
Agricultural Tractors.

Marquette (1,142,000 sq. ft.)
Combines; Balers; Castings; Tractor Cabs; Components.

Italy

Como (115,000 sq. ft.)
Tractor Components.

Fabbrico (380,000 sq. ft.)
Agricultural Wheel and Crawler Tractors.

Malawi

Blantyre (12,000 sq. ft.)
Hoes; Animal Draft Equipment.

Rhodesia

Bulawayo (56,000 sq. ft.)
Animal Draft Implements; Hoes; Groundnut Shellers.

South Africa

Potgietersrus (202,000 sq. ft.)
Harvesting Machinery; Implements; Trailers.

Vereeniging (677,000 sq. ft.)
Implements; Tractor Accessories and Attachments; Industrial Loaders; Transport Systems.

United Kingdom

Baginton (359,000 sq. ft.)
Tractor Components.

Coventry (1,768,000 sq. ft.)
Agricultural and Industrial Tractors; Axles; Gearboxes; other Components.

Kilmarnock (789,000 sq. ft.)
Combines; Mowers; Tractor Accessories.

United States

Des Moines (570,000 sq. ft.)
4-Wheel-Drive Agricultural Tractors; Corn Heads; Disc Tillage Implements; Lawn and Garden Tractors.

Detroit (Southfield) (647,000 sq. ft.)
Agricultural and Industrial Tractors.

Detroit (Van Born) (497,000 sq. ft.)
Tractor Transmission and Axle Assemblies; Hydraulic Pumps; Power Steering Pumps; Tractor Components.

Detroit (West Chicago) (314,000 sq. ft.)
Tractor and Combine Transmission and Axle Components.

Kaukauna (267,000 sq. ft.)
Badger Northland Forage and Feeding Equipment; Solid and Liquid Manure Systems.

West Germany

Eschwege (587,000 sq. ft.)
Roller Chain; Gearboxes; Gears; Hydraulic Cylinders; Combine Axles; Cast Iron and other Components.

Landau (240,000 sq. ft.)
Tractors and Implements.

Industrial and Construction Machinery

Brazil

Sorocaba (132,000 sq. ft.)
Crawler Tractors; Tractor-Backhoe-Loaders.

Italy

Aprilia (600,000 sq. ft.)
Crawler Tractors; Hydraulic Excavators.

Ravenna (110,000 sq. ft.)
Construction Machinery Components; Hydraulic Excavators.

United Kingdom

Knowsley (250,000 sq. ft.)
Tractor-Backhoe-Loaders; Wheel Loaders.

Manchester (511,000 sq. ft.)
Tractor Loaders; Tractor-Backhoe-Loaders; 4-Wheel-Drive Agricultural Tractors; Tractor Components.

United States

Akron (440,000 sq. ft.)
Wheel Loaders; Tractor-Backhoe-Loaders; Crawler Dozers and Loaders; Skidders; Forklifts; Tractor Components.

West Germany

Hanover (2,900,000 sq. ft.)
Wheel Dozers and Loaders; Crawler Tractors; Hydraulic Excavators; Compactors.

Engines

Australia

Dandenong (16,000 sq. ft.)
Industrial Diesel Engine Assembly; Engine Reconditioning.

Brazil

Sao Paulo (259,000 sq. ft.)
Diesel Engines.

Sao Paulo (Alvarengas) (48,000 sq. ft.)
Diesel Engines.

Sao Paulo (97,000 sq. ft.)
Castings.

France

Genainville (30,000 sq. ft.)
Agricultural Diesel Engine Assembly; Engine Reconditioning.

United Kingdom

Peterborough (Eastfield) (1,828,000 sq. ft.)
Diesel and Gasoline Engines; Engine Reconditioning.

Peterborough (Fletton) (150,000 sq. ft.)
Diesel Engines.

Peterborough (Fletton) (48,000 sq. ft.)
Engine Components.

Peterborough (Walton) (166,000 sq. ft.)
Engine Components.

United States

Canton (597,000 sq. ft.)
Diesel Engines.

Farmington (40,000 sq. ft.)
Diesel Engine Assembly.

West Germany

Hanover (250,000 sq. ft.)
Diesel Engines.

Furniture

Canada

Montreal (115,000 sq. ft.)
Wood Office Furniture.

Waterloo (286,000 sq. ft.)
Steel Office Furniture.

Major Parts Warehouses

Argentina (14,000 sq. ft.)
Australia (164,000 sq. ft.)
Brazil (43,000 sq. ft.)
Canada (354,000 sq. ft.)
France (106,000 sq. ft.)
Italy (58,000 sq. ft.)
Mexico (10,000 sq. ft.)
South Africa (132,000 sq. ft.)
United Kingdom (576,000 sq. ft.)
United States (985,000 sq. ft.)
West Germany (182,000 sq. ft.)

Associate Companies and % owned

Argentina

Perkins Argentina S.A.I.C. 26%
Cordoba (262,000 sq. ft.)
Diesel Engines.

Gema S.A. 10%
Rosario (175,000 sq. ft.)
Combines.

Brazil

CINPAL—Companhia Industrial de Peças para Automóveis 28%
Sao Paulo (196,000 sq. ft.)
Forgings.

Piratininga, Implementos Agricolas Ltda. 40%
Butia (65,000 sq. ft.)
Farm Implements.

India

Tractors and Farm Equipment Limited 49%
Madras (193,000 sq. ft.)
Tractors and Implements.

Iran

Masiran 40%
Tabriz (1,000,000 sq. ft.)
Tractors.
Diesel Engines (Under Development)

Italy

Simmel S.p.A. 33%
Castelfranco Veneto (380,000 sq. ft.)
Crawler Tractor Components.

Mexico

Massey-Ferguson de Mexico S.A. 49%
Queretaro (145,000 sq. ft.)
Tractors.

Naucalpan de Juarez (52,000 sq. ft.)
Farm Implements.

Motores Perkins S.A. 21%
Toluca (153,000 sq. ft.)
Diesel Engines.

Morocco

Comagi 24%
Casablanca (54,000 sq.ft.)
Tractors.

Spain

Motor Iberica S.A. 37%
Barcelona (Lopez Varela) (406,000 sq. ft.)
Tractor Components.

Barcelona (Zona Franca) (779,000 sq. ft.)
Trucks and Tractors.

Barcelona (Montcada) (196,000 sq. ft.)
Sheet-metal Components.

Ejea (97,000 sq. ft.)
Farm Implements.

Madrid (Avda. Aragon) (109,000 sq. ft.)
Diesel Engine Components.

Madrid (Cuatro Vientos) (726,000 sq. ft.)
Diesel Engines and Trucks

Noain (187,000 sq. ft.)
Combines; Balers; Corn Heads.

Tauste (16,000 sq. ft.)
Farm Implements.

Operating Companies

Argentina

Massey-Ferguson Argentina S.A.
Rosario

Compania Massey-Ferguson S.R.L.
Buenos Aires

Australia

Massey-Ferguson (Australia) Limited
Sunshine

Perkins Engines Australia Pty. Ltd.
Dandenong

Brazil

Massey-Ferguson do Brasil S.A.
Sao Paulo

Motores Perkins S.A.
Sao Bernardo do Campo

Progresso Metalfrit S.A.
Sao Paulo

Canada

Massey-Ferguson Industries Limited
Toronto

Sunar Limited
Waterloo

Kanmet Ltd.
Cambridge

Perkins Engines Canada Limited
Rexdale

Eire

Massey-Ferguson (Eire) Limited
Dublin

France

Massey-Ferguson S.A.
Le Plessis-Robinson

Moteurs Perkins S.A.
Saint-Denis

Italy

Massey-Ferguson S.p.A.
Aprilia

Motori Perkins S.p.A.
Como

Malawi

Agrimal (Malawi) Limited
Blantyre

Rhodesia

Rhoplow Limited
Bulawayo

South Africa

Massey-Ferguson (South Africa) Limited
Vereeniging

Safim Manufacturing Limited
Vereeniging

Slattery Manufacturing (Proprietary) Limited
Potgietersrus

Perkins Engines (Proprietary) Limited
Johannesburg

United Kingdom

Massey-Ferguson (United Kingdom) Limited
Coventry

Massey-Ferguson (Export) Limited
Coventry

Massey-Ferguson-Perkins Limited
London

Perkins Engines Group Limited
Peterborough

Perkins Engines Limited
Peterborough

United States

Massey-Ferguson Inc.
Des Moines

Badger Northland Inc.
Kaukauna

Perkins Diesel Corporation
Canton

Perkins Engines Inc.
Farmington

West Germany

Massey-Ferguson-Hanomag Inc. & Co.
Hanover

Massey-Ferguson GmbH
Eschwege

Gebr. Eicher GmbH
Forstern

Perkins Motoren GmbH
Kleinostheim

Licensees

Farm Machinery.
Greece
Japan
Kenya
Malaysia
Pakistan
Poland*
Portugal
Thailand
Turkey
Uruguay

Engines
Bulgaria
Greece
Japan
Pakistan
Poland*
S. Korea
Uruguay
Yugoslavia

ICM
India

Furniture
France
Japan

Under Development

Directors' Affiliations

Albert A. Thornbrough
President and Chief Executive Officer
Massey-Ferguson Limited
Director and Member Executive Committee–Canadian Imperial Bank of Commerce.
Director–Argus Corporation Limited.

John A. McDougald
Chairman, Executive Committee
Massey-Ferguson Limited
Chairman of the Board and President–Argus Corporation Limited.
Chairman of the Board and Chairman of the Executive Committee–Dominion Stores Limited.
Chairman of the Executive Committee and Vice President–Hollinger Mines Limited.
Vice President, Director and Member Executive Committee–
Canadian Imperial Bank of Commerce.

The Marquess of Abergavenny
Director–Lloyds Bank Limited, Whitbread Investment Company Ltd., United Kingdom.
President–Royal Agricultural Society of England, 1967.
Deputy President–Royal Agricultural Society of England, 1972.
President–Royal Association of British Dairy Farmers, 1955 and 1963.

Alex E. Barron
President–Canadian General Investments Ltd., Toronto, Canada.
Chairman–Canadian Tire Corporation Limited.
Director–Argus Corporation Limited, The Canada Trust Company, London Life Insurance Co., Halliburton Company.

Henry Borden, Q.C.
Director–IBM Canada Ltd., The Canada Trust Co. Mortgage Corporation, Canadian Investment Fund Limited, Montreal, Canada.
Honorary Director–Brascan Limited,
Past Chairman, Board of Governors–University of Toronto.
Past President–Royal Agricultural Winter Fair, Canada.

Charles L. Gundy
Chairman–Wood Gundy, Limited, Toronto, Canada.
Director–Simpsons Limited, Simpsons-Sears Limited, Abitibi Paper Co. Ltd., Canada Cement Lafarge Ltd., United Corporations Limited.
Honorary Chairman, Board of Trustees–Hospital for Sick Children, Toronto.

Gilbert W. Humphrey
Chairman–The Hanna Mining Company, Cleveland, U.S.A.
Chairman, Executive Committee–National Steel Corporation.
Director–General Reinsurance Corporation, National City Bank, Cleveland, Ohio, Sun Life Assurance Company of Canada.

John D. Leitch
President–Upper Lakes Shipping Ltd., Toronto, Canada.
Director and Vice President–Canadian Imperial Bank of Commerce.
Director–Dominion Foundries and Steel Ltd., Canada Life Assurance Company, American Airlines Inc., Maple Leaf Mills Limited, Canadian Oxygen Limited.

A. Bruce Matthews
Executive Vice President and Director–Argus Corporation Limited.
Chairman of Executive Committee–Canada Permanent Trust Company, Canada Permanent Mortgage Corporation, Toronto, Canada.
Chairman and Director–Dome Mines Limited.
Director–The Excelsior Life Insurance Company, Aetna Life & Casualty.

Maxwell C.G. Meighen
Chairman–Canadian General Investments Ltd., Toronto, Canada, Domtar Limited.
Vice President–The Canada Trust Company.
Director–The Algoma Steel Corp., Ltd.
Vice President and Director–Argus Corporation Limited.

John E. Mitchell
Executive Vice President Americas–Massey-Ferguson Limited.
Director–Iowa College Foundation, Iowa-Des Moines National Bank.
Director and Member Executive Committee–Farm and Industrial Equipment Institute, National Association of Manufacturers.

A.M. Runciman
President–United Grain Growers Limited, Winnipeg, Canada.
Director–The Great-West Life Assurance Company, Canadian Pacific Limited, The Royal Bank of Canada.
Honorary Member–Agricultural Institute of Canada, Manitoba Institute of Agrologists, Canadian Seed Trade Association, Canadian Seed Growers Association.
Member–Economic Council of Canada.

John G. Staiger
Senior Vice President–Massey-Ferguson Limited.
Director, Past Chairman and Past President–Farm and Industrial Equipment Institute.
Member, Board of Directors–Canadian Opera Company.
Member, Board of Trustees–Iowa Methodist Hospital.

J. Page R. Wadsworth
Vice President and Director–Confederation Life Insurance Company, Toronto.
Director–Canadian Imperial Bank of Commerce; MacMillan Bloedel Limited; Campbell Soup Company, Camden, N.J.

Trumbull Warren
Chairman, President and Director–Rheem Canada Limited, Hamilton, Canada.
Director–Phoenix Assurance Company of Canada, General Bakeries Ltd., Hendrie & Co., Acadia Life Ins. Co.
Member–Hamilton Advisory Board, The Royal Trust Co.
Honorary President–Royal Agricultural Winter Fair, Canada.

Colin W. Webster
Vice Chairman–Canadian Fuel Marketers Ltd., Montreal, Canada.
Director–Sun Life Assurance Company of Canada, The Royal Bank of Canada, Pacific Petroleums Ltd.
Governor Emeritus–McGill University.

The Duke of Wellington
Director–Motor Iberica S.A., Barcelona, Spain.
Colonel Commanding–The Household Cavalry, 1959-60.
Governor–Wellington College, United Kingdom.
County Councillor–Hampshire, 1967-74.
Colonel-in-Chief–The Duke of Wellington's Regiment.
Hon. Colonel–2nd Bn. The Wessex Regiment (V).
Deputy Lieutenant for the County of Hampshire.

PRINTED IN CANADA

Common Shares

Transfer Agents

National Trust Company, Limited
Toronto, Winnipeg, Calgary, Vancouver

Canada Permanent Trust Company
Montreal

The Canadian Bank of Commerce
Trust Company, New York

The British Empire Trust Company,
Limited, London, England

Registrars

Crown Trust Company
Toronto, Montreal, Winnipeg, Calgary, Vancouver

Morgan Guaranty Trust Company
of New York, New York

Lazard Brothers & Co., Ltd.
London, England

Stock Exchanges

The common shares of Massey-Ferguson Limited are listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange in the United States and on the London Stock Exchange in England.

These shares have unlisted trading privileges in the United States on the Midwest Stock Exchange in Chicago, the PBW Stock Exchange, the Boston Stock Exchange and the Pacific Coast Stock Exchange. The shares are also traded on the Amsterdam Stock Exchange in the form of Dutch Bearer Certificates.

Preferred Shares

Transfer Agents

Crown Trust Company
Toronto, Montreal, Winnipeg
Calgary, Vancouver

Canada Permanent Trust Company,
Regina

Registrar

The Canada Trust Company
Toronto, Montreal, Winnipeg,
Calgary, Vancouver

Stock Exchanges

Preferred shares of Massey-Ferguson Limited are listed only on the Toronto, Montreal and Vancouver Stock Exchanges in Canada.

Dividend Reinvestment Plan

National Trust Company offers a Dividend Reinvestment Plan for common shareholders of the company. Information on the Plan can be obtained by writing National Trust Company, Limited, Stock Transfer Department, 18 King Street East, Toronto M5C 4E4.

Farm Machinery

Industrial and Construction Machinery

Engines

Massey-Ferguson Limited
Printed in Canada

File

Massey-Ferguson Limited

Financial Report 6 months ended April 30, 1976

News highlights

in the six months

- **$80 Million Anglo-Polish Engines Project.** An agreement was reached in November with the Polish Government whereby Perkins six-cylinder diesel engines will be produced in Poland beginning early 1977 at a rate of 25,000 units a year with potential expansion to 40,000. This project supplements the $350 million program to build in Poland 75,000 MF tractors and 90,000 Perkins three- and four-cylinder engines a year starting in 1978.
- **$100 Million Iranian Tractor and Engines Project.** In a joint venture formed in January with Iranian Government interests, MF will progressively manufacture tractors and Perkins engines at Tabriz. Targets call for 5,000 tractors a year rising to 20,000 tractors and 30,000 engines a year by 1980.
- **Capital Expenditures Planned at $170 Million in 1976.** The company's Annual Report, issued in January, stated that additions to fixed assets for the three-year period 1974-76 are expected to reach $450 million.
- **$60 Million in Preferred Shares Sold in March.** The Series B shares sold in Canada at $25 each and carry a dividend of $2.50 per year.
- **Pakistan Orders Another 3,000 MF Tractors.** With the new order announced in March, Pakistan's total tractor orders for this year reached $16 million, a 54 per cent increase over 1975.
- **$17.6 Million Detroit Tractor Plant Expansion.** This is phase two of a $30 million program begun early in 1975 which will make possible an eventual increase of more than 75 per cent in the production capacity of large horsepower tractors.
- **$75 Million Eurodollar Bonds Sold in May.** It was one of the largest public bond issues ever floated in the Euromarkets by an industrial company.
- **Workers in England Accept New Agreements.** By early May, all of the 15,000 hourly paid MF employees in the U.K. had accepted new one-year agreements consistent with the Social Contract guidelines.

Massey-Ferguson Limited
200 University Avenue, Toronto, M5H 3E4,
Canada

in most of the world was ahead of last year's pace and provided an excellent start for the 1976/77 crop year. Subsequent lack of moisture has caused some concern in the grain-growing areas of North America, Eastern and Western Europe and the U.S.S.R., but it is still too early to assess whether these conditions will offset the early start.

Between February 10, 1976, the record date for the Annual Meeting, and May 17, the record date for the dividend payable June 15, the total number of shareholders decreased from 34,371 to 31,361. During the same period, the percentage of total shares held by U.S. residents increased from 21 to 35 per cent and Canadian ownership dropped from 77 to 63 per cent.

In contrast with sales and income for the second half of 1975 which were distorted by a prolonged strike at our Coventry tractor plant, the sales and income for the third and fourth quarters of this year should resume a more normal pattern.

Prospects appear favourable for all product groups and for most markets. Production programs for the second half should assure availability to meet indicated market requirements. On balance, the outlook for the remainder of 1976 is for continuing growth in sales and income.

Albert A. Thornbrough

June 14, 1976

President and
Chief Executive Officer

Massey-Ferguson Limited

Consolidated statements of income
(unaudited)

(Thousands of U.S. Dollars)

	Three months ended April 30		Six months ended April 30	
	1976	1975	**1976**	1975
Net sales by territories				
Europe	**$257,357**	$206,797	**$ 446,288**	$ 361,772
North America	**212,497**	167,666	**330,698**	286,418
Latin America	**122,534**	122,684	**227,026**	207,441
Asia	**51,740**	33,549	**90,774**	58,125
Africa	**37,706**	49,700	**64,601**	87,449
Australasia	**31,743**	23,736	**52,678**	40,291
Total net sales	**713,577**	604,132	**1,212,065**	1,041,496
Costs and expenses				
Cost of goods sold	**540,648**	460,341	**924,321**	803,318
Marketing, general and administrative expenses	**83,496**	66,339	**141,349**	111,036
Engineering and product development expenses	**15,814**	13,439	**29,767**	25,803
Interest on long-term debt	**16,105**	10,012	**29,438**	17,746
Interest on bank and other short-term debt	**14,407**	18,859	**26,050**	33,724
Exchange adjustments	**(2,277)**	(1,918)	**(2,278)**	(858)
Minority interest	**652**	1,276	**764**	1,869
Miscellaneous	**(2,035)**	(1,071)	**(3,571)**	(2,743)
	666,810	567,277	**1,145,840**	989,895
Profit before income taxes and items shown below	**46,767**	36,855	**66,225**	51,601
Income taxes	**18,727**	14,564	**28,323**	21,731
Profit before items shown below	**28,040**	22,291	**37,902**	29,870
Equity in net income of finance subsidiaries	**2,012**	916	**3,716**	1,752
Equity in net income of Associate companies	**1,824**	1,075	**2,429**	1,650
Net income	**$ 31,876**	$ 24,282	**$ 44,047**	$ 33,272
Depreciation, and amortization of production tooling included above	**$ 12,871**	$ 10,428	**$ 24,940**	$ 19,601
Preferred dividend	**$ 1,527**	—	**$ 2,516**	—
Common shares outstanding	**18,250,350**	18,248,850	**18,250,350**	18,248,850
Net income per common share (in U.S. Dollars) **after provision for preferred dividends in 1976**	**$1.66**	$1.33	**$2.28**	$1.82

Change in presentation: Short-term interest income ($13.4 million for the six months in 1976 and $10.3 million in 1975) previously shown in Interest and Sundry Income has been netted against Interest on Bank and Other Short-term Debt.

The sundry income portion ($3.3 million for the six months in 1976 and $2.6 million in 1975) has been grouped with Profit on Disposal of Fixed Assets to form a new category entitled Miscellaneous.

Sales by major product groups
6 months ended April 30

	1976	1975	% Increase (Decrease)
	(Millions of U.S. $)		
Farm Machinery	**$ 870.9**	$ 745.5	16.8
Industrial and Construction Machinery	**157.6**	141.2	11.6
Engines	**159.8**	131.2	21.8
Other Products	**23.8**	23.6	0.8
Total	**$1,212.1**	$1,041.5	16.4%
Parts (included in the above figures)			
Farm Machinery	*$103.3*	*$ 98.4*	*5.0*
ICM	*27.0*	*27.1*	*(0.4)*
Engines	*30.1*	*29.9*	*0.7*
Total	*$160.4*	*$155.4*	*3.2%*

Sales by major markets
6 months ended April 30

	1976	1975	% Increase (Decrease)
	(Millions of U.S. $)		
United States	**$ 257.1**	$ 222.7	15.5
Brazil	**167.4**	141.0	18.8
United Kingdom	**113.4**	98.1	15.7
France	**89.5**	69.6	28.6
Germany	**81.0**	63.2	28.1
Canada	**73.6**	63.7	15.5
Italy	**63.8**	39.4	62.0
Australasia	**52.7**	40.3	30.7
Turkey	**47.6**	21.8	118.4
South Africa	**33.2**	39.6	(16.2)
Argentina	**26.0**	30.2	(14.0)
Mexico	**19.8**	16.8	17.4
Japan	**11.3**	12.3	(8.1)
All other	**175.7**	182.8	(3.9)
Total	**$1,212.1**	$1,041.5	16.4%

Massey-Ferguson Limited

Summarized consolidated balance sheets
(unaudited)

(Thousands of U.S. Dollars)

	April 30 1976	1975
ASSETS		
Current assets		
Cash	**$ 40,918**	$ 56,141
Receivables	**409,934**	384,070
Products sold to North American dealers under deferred floor plan arrangements	**243,651**	171,580
Inventories	**950,343**	995,911
Prepaid expenses and other current assets	**88,106**	86,477
Total current assets	**1,732,952**	1,694,179
Investments	**124,431**	103,076
Fixed assets	**430,270**	305,531
Other assets and deferred charges	**16,059**	21,974
Total assets	**$2,303,712**	$2,124,760
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank borrowings	**$ 401,055**	$ 563,922
Current portion of long-term debt	**62,903**	54,503
Other current liabilities	**612,782**	554,179
Total current liabilities	**1,076,740**	1,172,604
Deferred liabilities	**61,080**	42,086
Long-term debt	**414,628**	306,106
Minority interest in subsidiaries	**17,858**	17,545
Shareholders' equity	**733,406**	586,419
Total liabilities and shareholders' equity	**$2,303,712**	$2,124,760

Massey-Ferguson Limited

To the shareholders

Consolidated sales of Massey-Ferguson Limited for the six months ended April 30, 1976, were U.S. $1,212.1 million compared to $1,041.5 million for the same period of 1975, an increase of 16 per cent. Net income was $44.0 million compared to $33.3 million for the comparable period in 1975, an increase of 32 per cent. After provision for preferred dividends in 1976, net income per common share was $2.28 compared to $1.82 per share in 1975.

For the second quarter, sales were $713.6 million, an increase of 18 per cent. Net income of $31.9 million was up 31 per cent. Net income per share after provision for preferred dividends was $1.66 compared to $1.33.

Sales of the company's major product groups were at record levels for the first half of 1976. Farm machinery sales of $870.9 million were up 17 per cent; industrial and construction machinery sales of $157.6 million were up 12 per cent; and engine sales to third parties of $159.8 million were up 22 per cent.

Sales in Asia showed a gain of 56 per cent, Australasia was up 31 per cent, and Europe up 23 per cent.

Sales in North America, which are on a settlement basis and represent sales to the final customer, were 27 per cent ahead of 1975 for the second quarter, reflecting a return to a more normal pattern of seasonal farmer buying, and were 15 per cent ahead for the first six months.

Latin American sales were flat for the second quarter. Political and economic uncertainties in Argentina caused a further major depreciation of the peso. Brazilian operations were hampered by a flash flood which disrupted tractor plant production in Sao Paulo for several weeks but production has now returned to normal.

In South Africa, agricultural machinery sales were depressed because of excessive rains which damaged summer wheat, young maize and groundnut crops, and the resultant inflationary impact on the cost of imported goods brought about by the 1975 rand devaluation. While Government economic measures caused a serious slowdown in building activity, the company has experienced a substantial increase in industrial and construction machinery sales in the first six months of this year, although over-all sales were down.

During the first half of 1976, major deteriorations of a number of currencies including sterling, the French franc and the Italian lira, reduced the values of sales when translated into U.S. dollars by an equivalent of approximately nine per cent of world-wide sales. The net impact of all currency changes on income was a favourable exchange adjustment of $2.3 million.

Improvement in the company's balance sheets also was recorded, in part attributable to the issuance of $60 million of preference shares in Canada during the second quarter. Proceeds of the company's $75 million 15-year Eurobond issue which was closed June 3 are not reflected in the April 30 balance sheets.

Cost of goods sold as a percentage of sales continued the favourable trend of the first quarter, and for the first half of 1976 was 76.3 per cent compared to 77.1 per cent in 1975. While some production problems developed in the second quarter, primarily in France and Brazil, the general easing of supplies of raw materials and components contributed to an improvement in production levels and costs. However, price controls in a number of major markets, including the United Kingdom, Brazil, France and Canada, continue to distort normal relationships between costs and selling prices.

Although expenses as a percentage of sales were up slightly in the first six months, interest costs relative to sales continued the downward trend of the first quarter, and for the six months were 4.6 per cent compared to 4.9 per cent for 1975.

North American dealer inventories at April 30, 1976, were above the 1975 level but generally were consistent with the competitive requirements of this market and with increasing sales volumes. Company inventories world-wide declined during the second quarter and were $46 million below 1975.

Throughout the six-month period, a series of significant new product introductions were made in various parts of the world.

The new 500 Series tractors — ranging from 47 horsepower to a four-wheel drive 92 horsepower model — were introduced in the U.K. and Germany, while in France the Mark III vineyard tractors went on the market.

Production of the 200 Series tractors began in Brazil late in 1975. Tractor models of 41 and 75 horsepower with several implement adaptations were introduced into the North American market in early spring.

A light, high-capacity round baler — the MF450 — was introduced world-wide early in 1976. Late in 1975, production began at the Toronto plant of the new MF120 and 128 and improved MF124 and 126 balers which were introduced world-wide for the 1976 haying season.

On April 12, the first engine produced by Perkins Diesel Corporation came off the assembly line on schedule at the Canton, Ohio, plant. Major assembly line modifications, retooling of cylinder head and engine block transfer lines and the installation of sophisticated testing facilities have been completed in less than a year since the plant was purchased. It has an ultimate production capacity of 100,000 engines a year.

With the completion of the integration of the Hanomag, Germany, construction machinery organization into the MF group and the rationalization of the two distribution systems, unit retail sales of construction machinery in Europe alone jumped 50 per cent ahead of last year. Production programs have been coordinated and we are well on our way to achieving the planned substantial increase in output.

World-wide crop prospects remain good despite recent erratic weather conditions. Spring seeding